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WORLD BANK OPERATIONS EVALUATION DEPARTMENT

Promoting Environmental Sustainability in Development

An Evaluation of the World Bank's Performance

Andrés Liebenthal

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FOREWORD

The World Bank has made substantial improvement in its environmental performance since 1987. It has focused on the environment as a new area of activity, and it has sought to mitigate the negative environmental effects of its development interventions. The Bank's participation in the 1992 United Nations Conference on Environment and Development and the 1992 *World Development Report* on the environment demonstrated the Bank's engagement and helped launch many environmental activities. These efforts have produced commendable results and have promoted awareness in developing country governments of the linkages between the environment and development. The Bank has helped many governments create environmental ministries and environmental assessment regulations.

To be sure, these achievements have fallen short of the expectations of many stakeholders. The momentum of the early 1990s dissipated in the face of constraints in the operating environment. Environmental sustainability was not integrated into the Bank's core objectives and country assistance strategies, and linkages between macroeconomic policy, poverty alleviation, and environmental sustainability were not explicitly forged. There has been a lack of consistent management commitment to the environment, coupled with a lack of consistent management accountability. The

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PRÓLOGO

El Banco Mundial ha mejorado apreciablemente su actuación relativa al medio ambiente desde 1987. Ha centrado la atención en el medio ambiente como nueva esfera de actividad y ha tratado de mitigar los efectos ambientales perjudiciales de sus intervenciones de desarrollo. Su participación en la Conferencia de las Naciones Unidas sobre Medio Ambiente y Desarrollo de 1992 y el *Informe sobre el desarrollo mundial 1992: desarrollo y medio ambiente* demostraron el compromiso del Banco y contribuyeron a la iniciación de múltiples actividades ambientales. Esa labor ha producido resultados encomiables y ha creado conciencia en los gobiernos de los países en desarrollo de los vínculos que existen entre el medio ambiente y el desarrollo. El Banco ha ayudado a muchos gobiernos a crear ministerios del medio ambiente y a elaborar normas de evaluación ambiental.

Esos éxitos no han logrado colmar, por cierto, las expectativas de muchos de los interesados. El impulso creado a comienzos de los años noventa se debilitó debido a las limitaciones del entorno operacional. La sostenibilidad ambiental no se incorporó en los objetivos básicos ni en las estrategias de asistencia a los países del Banco, ni se establecieron vinculaciones explícitas entre la política macroeconómica, el alivio de la pobreza y la sostenibilidad ambiental. No ha habido un

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PRÉFACE

La Banque mondiale a considérablement amélioré les résultats qu'elle obtient au plan environnemental depuis 1987. Elle a fait de l'environnement l'un de ses pôles d'activité, et s'efforce d'atténuer les effets négatifs que peuvent avoir en ce domaine ses interventions en faveur du développement. Sa participation à la Conférence des Nations Unies sur l'Environnement et le Développement en 1992 et la publication, la même année, d'un *Rapport sur le Développement dans le Monde* consacré à l'environnement, qui ont contribué au lancement de nombreuses activités environnementales, témoignent de l'engagement de la Banque en ce domaine. Ces efforts ont produit des résultats louables et ont permis de faire prendre conscience aux pouvoirs publics des pays en développement des liens qui existent entre l'environnement et le développement. La Banque a aidé de nombreux pays à se doter d'un ministère de l'environnement et à mettre en place des réglementations exigeant la réalisation d'évaluations environnementales.

Il est indéniable que ces accomplissements ne répondent pas totalement aux attentes de nombreuses parties prenantes. La dynamique observée au début des années 90 a été compromise par les obstacles opérationnels. La viabilité écologique n'a été intégrée ni dans les grands objectifs de la Banque ni dans

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Bank has not supported environment efforts as a central theme through staff incentives or resource allocations. Yet staff have carried out many worthwhile activities related to the environment.

These shortcomings are rooted in part in fundamental differences of view among member countries about the Bank's role. Many countries are reluctant to borrow for environmental projects and to implement Bank environmental policies, which they perceive as costly and rigid. Many nongovernmental organizations remain critical of Bank performance, and some advocate policies that would downplay the economic prerequisites of poverty reduction.

In short, this OED report finds that the Bank has made progress on environmental matters but notes that its commitments have not been accompanied by precise goals and performance monitoring. It advances explanations of why things have turned out this way and offers recommendations that focus on how to restore the environment to its proper role in the Bank's holistic, long-term development agenda.

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compromiso firme ni una responsabilidad sistemática de la administración respecto del medio ambiente. El Banco no ha apoyado el carácter prioritario del trabajo sobre el medio ambiente con el otorgamiento de incentivos al personal o con la asignación de recursos. A pesar de ello, el personal ha llevado a cabo muchas actividades valiosas relacionadas con el medio ambiente.

Esas deficiencias tienen su origen en parte en diferencias de opinión fundamentales entre los países miembros acerca del papel del Banco. Muchos países se resisten a pedir préstamos para proyectos ambientales y a aplicar las políticas sobre medio ambiente del Banco, las que consideran costosas y rígidas. Muchas organizaciones no gubernamentales continúan criticando la actuación del Banco. Algunas, incluso, preconizan políticas que restarían importancia a los requisitos económicos esenciales para la reducción de la pobreza.

En resumen, en el presente informe del DEO (Departamento de Evaluación de Operaciones) se llega a la conclusión de que el Banco ha progresado en lo que respecta a las cuestiones ambientales, pero se observa que sus compromisos no han estado acompañados de metas precisas ni del seguimiento de los resultados. Se presentan explicaciones sobre el porqué de ello y se formulan recomendaciones centradas en la forma de devolver al medio ambiente el papel central que le corresponde en el programa de desarrollo integrado y a largo plazo del Banco.

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les stratégies d'aide-pays, et les liens entre la politique macroéconomique, la réduction de la pauvreté et la viabilité écologique n'ont pas été clairement établis. La direction n'a pas toujours fait preuve de son engagement dans le domaine environnemental et n'a pas été systématiquement tenue comptable des choix effectués en ce domaine. La Banque n'a pas accordé aux actions environnementales une place centrale en les appuyant par la fourniture d'incitations au personnel ou de ressources financières. Les services de la Banque ont néanmoins poursuivi de nombreuses activités importantes sur le plan environnemental.

Ces points faibles s'expliquent en partie par les opinions fondamentalement divergentes des États membres quant au rôle de la Banque. De nombreux pays hésitent à emprunter pour financer des projets environnementaux et à mettre en oeuvre les politiques environnementales de la Banque qu'ils jugent coûteuses et rigides. De nombreuses organisations non gouvernementales continuent de critiquer la performance de la Banque et certaines préconisent l'adoption de politiques qui minimisent l'importance des conditions économiques nécessaires à la réduction de la pauvreté.

Pour conclure, le rapport de l'DEO estime que la Banque a réalisé des progrès sur le plan environnemental mais note que son engagement en ce domaine n'a pas donné lieu à la définition

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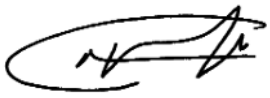
d'objectifs précis et à un suivi des résultats. Il s'efforce d'en déterminer les raisons et offre diverses recommandations pour redonner à l'environnement la place centrale qui lui convient dans le programme de développement holistique à long terme de la Banque.



Robert Picciotto
Director-General, Operations Evaluation

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EXECUTIVE SUMMARY

In its first review of the Bank's environmental policies and activities since the Environment Department was created in 1987, the Operations Evaluation Department (OED) finds that Bank performance has substantially improved. The Bank has mitigated the negative effects of many of its development interventions, helped governments build environmental institutions and programs, and produced solid policy analysis and economic and sector work—but it has not yet integrated environmental concerns fully into its core objectives or its country assistance and sector strategies. The Bank has played a leading role in addressing global issues and has improved awareness of the links between the environment and development, but the complex links between environmentally sustainable development and poverty alleviation should be made even more explicit.

Until recently, the momentum achieved in the early 1990s had slowed in the face of operational constraints. Dedicated staff and borrowers committed to improving the environment have achieved some notable successes, but many countries are reluctant to borrow for environmental projects or to implement Bank environmental policies; Bank management, concerned with an ever-growing development agenda, has not been consistent in its commitment to the environment; and managers have not been held strictly accountable for complying with the Bank's environmental policies. The Bank

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RESUMEN

En su primer examen de las políticas y actividades ambientales del Banco desde que se creó el Departamento del Medio Ambiente en 1987, el Departamento de Evaluación de Operaciones (DEO) llega a la conclusión de que el Banco ha mejorado notablemente su actuación en esta esfera. Ha mitigado los efectos negativos de muchas de sus intervenciones de desarrollo, ha ayudado a los gobiernos a crear instituciones y programas relacionados con el medio ambiente, y ha producido análisis de política y estudios económicos y sectoriales sólidos —pero aún no ha integrado completamente las cuestiones ambientales en sus objetivos básicos ni en sus estrategias sectoriales y de asistencia a los países. El Banco ha desempeñado un papel preponderante en lo que respecta a abordar problemas de alcance mundial y ha creado mayor conciencia de los vínculos que existen entre el medio ambiente y el desarrollo, pero es preciso hacer aún más explícitos los complejos vínculos entre un desarrollo ambientalmente sostenible y el alivio de la pobreza.

Hasta hace poco tiempo, el impulso alcanzado a comienzos de los años noventa se había debilitado al tropezar con limitaciones operacionales. El personal y los prestatarios empeñados en mejorar el medio ambiente han logrado un éxito notable en algunos aspectos, pero muchos países se muestran reacios a pedir préstamos para proyectos

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RÉSUMÉ ANALYTIQUE

Au terme de son premier examen des politiques et des activités environnementales de la Banque depuis la création du département de l'environnement en 1987, le département de l'évaluation des opérations (OED) note que la performance de la Banque en ce domaine s'est nettement améliorée. La Banque a réduit les effets négatifs d'un grand nombre de ses interventions à l'appui du développement, a aidé les pouvoirs publics à mettre en place des institutions et des programmes environnementaux, et a réalisé de solides études et analyses économiques et sectorielles ; toutefois elle n'a pas encore pleinement inclus les questions environnementales dans ses objectifs institutionnels ou dans ses stratégies d'aide qui sont axées sur les pays ou sur les secteurs. La Banque mène l'action engagée pour lutter contre les problèmes d'envergure mondiale et contribue à faire mieux comprendre les liens entre l'environnement et le développement ; il conviendrait toutefois d'établir encore plus clairement les rapports qui existent entre un développement écologiquement viable et la réduction de la pauvreté.

La dynamique observée au début des années 90 a été compromise par des obstacles opérationnels jusqu'à une date récente. Si des progrès notables ont été accomplis grâce au dévouement de services de l'institution et à la détermination

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must provide better guidance, standards, tools, incentives, and monitoring if staff are to mainstream environmental components in all Bank work, as proposed by the environmental strategy recently approved by the Bank's executive directors.

The Bank's Approach to the Environment

In response to worldwide concerns about whether economic development was compatible with protection of the environment, the international donor community began assigning higher priority to environmental concerns in the late 1980s. Stakeholders urged the Bank to accelerate its efforts to support more environmentally sustainable development through increased lending, more attention to the environment in country programs and policy dialogue, and more support for global and regional environmental initiatives.

Since 1987, the Bank has vastly expanded the level and scope of its environmental activities, according to this review, which was timed to inform preparation of a new Bank strategy for the environment. The Bank created an Environment Department, greatly increased environmental staff (who now number about 250), instituted environmental safeguard policies, and launched a program of environmental lending. The Bank's participation in the U.N. Conference on Environment and Development in Rio de Janeiro and the *World Development Report* on the environment (both in 1992) demonstrated the Bank's engagement with environmental

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ambientales o a aplicar las políticas ambientales del Banco; la administración, empeñada en un programa de desarrollo cada vez más amplio, no ha sido coherente en su compromiso con el medio ambiente, y no se ha hecho a los administradores estrictamente responsables del cumplimiento de las políticas ambientales del Banco. Es preciso que éste mejore sus directrices, normas, instrumentos, incentivos y sistemas de supervisión, a fin de que el personal incorpore componentes ambientales en todos los estudios, como se propuso en la estrategia ambiental aprobada recientemente por los Directores Ejecutivos.

La estrategia del Banco con respecto al medio ambiente

Para atender a la preocupación mundial acerca de si el desarrollo económico es compatible con la protección del medio ambiente, la comunidad internacional de donantes comenzó a asignar mayor prioridad a las cuestiones ambientales a fines del decenio de 1980. Los interesados instaron al Banco a que acelerara sus esfuerzos en pro de un desarrollo más sostenible desde el punto de vista ambiental mediante el aumento de las operaciones de préstamo, una mayor atención al medio ambiente en los programas de países y los diálogos sobre políticas, y un mayor apoyo a las iniciativas ambientales mundiales y regionales.

De conformidad con el presente examen, que estaba calculado para que sirviera de base a la preparación de una nueva estrategia del Banco sobre el

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d'emprunteurs désireux d'améliorer la situation environnementale, un grand nombre de pays hésitent à emprunter pour financer des projets environnementaux ou à mettre en œuvre les politiques environnementales de la Banque ; la direction de l'institution, confrontée à un programme d'interventions environnementales sans cesse plus important, n'a pas toujours fait preuve de son engagement en ce domaine et n'a pas été vraiment tenue comptable du respect de ses politiques environnementales. La Banque doit fournir de meilleures directives, normes et incitations et de meilleurs outils et aussi assurer un suivi plus rigoureux pour permettre à ses services de systématiquement intégrer des composantes environnementales dans les opérations, comme le préconise la stratégie environnementale que viennent d'approuver les administrateurs.

La démarche environnementale de la Banque

Face aux préoccupations suscitées dans le monde entier par la compatibilité du développement économique et de la protection de l'environnement, la communauté des bailleurs de fonds internationaux a commencé à accorder une plus haute priorité aux questions environnementales vers la fin des années 80. Les parties prenantes ont enjoint la Banque d'accroître son appui à un développement plus viable sur le plan environnemental en augmentant le volume de ses financements au titre de l'environnement, en accordant une

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issues and helped launch a range of environmental activities. The Bank has helped many governments create environmental ministries and introduce regulations requiring environmental assessments. It has undertaken about 140 environmental projects and has subjected roughly 1,200 projects to an environmental assessment or review. OED assessed the Bank's performance record in four broad areas of environmental activity:

- *Stewardship:* helping member countries develop strategic priorities, build institutions, and implement programs to support environmentally sustainable development.
- *Mainstreaming:* integrating environmental considerations into Bank operations and helping member countries build on the positive links between poverty reduction, economic efficiency, and environmental protection.
- *Safeguards:* ensuring that potential adverse environmental impacts from development projects are addressed.
- *Global challenges:* building awareness about and partnerships to address pressing transnational and global environmental issues.

Stewardship, Strategy, and Policy Dialogue

After Rio, at the urging of International Development Association (IDA) deputies, the Bank pressed for the completion of national environmental action plans (NEAPs) in borrower countries. By the end of 2000, 92 NEAPs (of mixed quality) had been

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medio ambiente, a partir de 1987 el Banco ha ampliado enormemente el nivel y el alcance de sus actividades ambientales. Creó un Departamento del Medio Ambiente, aumentó considerablemente el número de funcionarios que se ocupan del medio ambiente (el que ahora asciende a unos 250), instituyó políticas de salvaguardia ambiental y puso en marcha un programa de préstamos para fines ambientales. Su participación en la Conferencia de las Naciones Unidas sobre Medio Ambiente y Desarrollo celebrada en 1992 en Rio de Janeiro y el *Informe sobre el desarrollo mundial 1992: desarrollo y medio ambiente* demostraron el compromiso del Banco con las cuestiones ambientales y contribuyeron a la iniciación de una variedad de actividades ambientales. El Banco ha ayudado a muchos gobiernos a crear ministerios del medio ambiente y a introducir normas que exigen una evaluación ambiental. Ha emprendido unos 140 proyectos ambientales y ha sometido a evaluación o estudios ambientales unos 1.200 proyectos aproximadamente. El DEO evaluó la actuación del Banco en cuatro amplias esferas de actividad ambiental:

- *Gerencia ambiental*: Prestación de ayuda a los países miembros para el establecimiento de prioridades estratégicas, la creación de instituciones y la implementación de programas destinados a apoyar un desarrollo ambientalmente sostenible.
- *Integración*: Inclusión de las consideraciones ambientales en

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plus grande attention à cette question dans le cadre des programmes établis pour les pays et du dialogue sur l'action à mener, et en fournissant un plus grand appui aux initiatives environnementales d'envergure mondiale et régionale.

Le présent examen, qui a été préparé aux fins de la préparation d'une nouvelle stratégie environnementale de la Banque, a permis d'établir que, depuis 1987, l'institution a considérablement accru le volume et la portée de ses activités environnementales. Elle a créé un département de l'environnement, gonflé les effectifs chargés de ce domaine (ils sont actuellement 250), adopté des mesures de sauvegarde environnementale et lancé un programme de prêts au titre de l'environnement. La participation de la Banque à la conférence des Nations Unies sur l'environnement et le développement, à Rio de Janeiro en 1992, et la publication, la même année d'un rapport sur le développement dans le monde consacré à l'environnement témoignent de l'intérêt porté par l'institution à ce domaine et ont permis de lancer toute une gamme d'activités en ce domaine. La Banque a aidé un grand nombre de pays à se doter de ministères de l'environnement et à mettre en place des réglementations exigeant la réalisation d'évaluations environnementales. Elle a entrepris environ 140 projets environnementaux et a assujetti quelque 1?0 autres projets à une évaluation ou à un examen environnemental. L'OED a évalué la performance de la Banque en

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completed. Within the Bank, however, only half of the Country Assistance Strategies reviewed (from a 1992–99 sample) had adequately addressed environmental issues as cutting across all sectors.

Substantial progress has been made where committed Bank staff and line managers have been proactive in making the case for the environment and where borrower countries recognize its importance. Countries as diverse as China, Costa Rica, Mozambique, and Poland have demonstrated how much can be done in gaining government commitment to and improving the design and application of a country's environmental policies. Satisfying results have been obtained in both low- and middle-income countries. The priority the Bank gives the environment in its own objectives, strategy, and programs is as important a signal to member countries as the extent of the financial assistance it offers.

Environmental Lending and Mainstreaming

The amount of direct environmental lending rose from $564 million in 1993 (7 projects) to $1,072 million in 1996 (15 projects), dropping to $514 million in 2000 (13 projects). Some of the Bank's environmental projects and programs have served as models of successful direct lending and of mainstreaming the environment into other operations—for example, the Loess Plateau Watershed Rehabilitation and Sustainable Coastal Resources Development projects in China, the Uttar Pradesh Sodic Lands

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las operaciones del Banco y ayuda a los países miembros para consolidar los vínculos positivos entre la reducción de la pobreza, la eficiencia económica y la protección del medio ambiente.

- *Salvaguardias*: Adopción de medidas para atender a los posibles efectos ambientales adversos de los proyectos de desarrollo.
- *Problemas mundiales*: Toma de conciencia acerca de los urgentes problemas ambientales transnacionales y mundiales, y establecimiento de asociaciones para abordarlos.

Gerencia ambiental, estrategia y diálogo sobre políticas

Con posterioridad a la Conferencia de Rio, a instancias de los Delegados de la Asociación Internacional de Fomento (AIF), el Banco insistió en que se completaran los planes nacionales de protección ambiental en los países prestatarios. Para fines de 2000, se habían terminado 92 planes (de calidad desigual). Dentro del Banco, sin embargo, sólo la mitad de las estrategias de asistencia a los países examinadas (de una muestra que abarcaba el período 1992-1999) había tratado adecuadamente las cuestiones ambientales como problemas que afectan a todos los sectores.

Se han realizado avances considerables en los casos en que los funcionarios del Banco entregados a su trabajo y sus supervisores inmediatos han abogado activamente en favor del medio ambiente y en que los países prestatarios reconocen su importancia. Países tan diversos

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s'attachant à quatre grands aspects des activités environnementales :

- *Une bonne intendance de l'environnement,* c'est-à-dire l'aide fournie aux pays membres aux fins de la formulation de leurs priorités stratégiques, du renforcement de leurs institutions et de l'exécution des programmes à l'appui d'un développement écologiquement durable.
- *L'intégration,* c'est-à-dire la prise en compte systématique des considérations environnementales dans les opérations de la Banque et la fourniture d'une aide aux pays membres pour leur permettre d'exploiter les liens positifs qui existent entre la réduction de la pauvreté, l'efficience de l'économie et la protection de l'environnement.
- *Les mesures de sauvegarde,* c'est-à-dire les dispositions prises pour que les effets négatifs que peuvent avoir les projets de développement sur l'environnement soient pris en considération.
- *Les problèmes d'envergure mondiale,* c'est-à-dire la sensibilisation des parties prenantes à ces problèmes et la formation de partenariats pour s'attaquer aux problèmes environnementaux pressants qui sortent du cadre des frontières nationales ou se manifestent à l'échelle mondiale.

Une bonne intendance, des stratégies et le dialogue sur l'action à mener

À la suite de la conférence de Rio et à la demande expresse des

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Reclamation project in India, an industrial pollution project in Bulgaria, the Arid Lands Resource Management project in Kenya, district heating projects in Poland, and air pollution projects in Mexico. Results are still uncertain for significant efforts made in other countries to implement major and vitally needed reforms in the treatment of the environment.

One objective of mainstreaming is to integrate environmental concerns into the design and implementation of all projects. This will be more difficult to put into practice and to monitor than direct environmental lending, but could have much more dramatic effects. In the past, the Bank's sectoral orientation made it difficult for environmental staff to participate in projects in other sectors and to encourage sensitivity to environmental issues. In the 1990s the proportion of adjustment lending that dealt with environmental issues was only 23 percent.

Safeguards and Environmental Assessments

The Bank has addressed the potentially adverse environmental impacts of projects it supports through implementation of environmental assessments (EAs) and related safeguard policies. OED reviews have found the Bank's environmental safeguard policies to be generally satisfactory, but implementation of environmental assessments has been mixed. Often the assessments are not completed (and safeguard issues are not identified) early enough in the project cycle to have

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como China, Costa Rica, Mozambique y Polonia han demostrado lo mucho que se puede hacer para lograr la adhesión del gobierno a las políticas ambientales del país y para mejorar la formulación y la aplicación de éstas. Se han obtenido resultados satisfactorios tanto en países de ingreso bajo como en países de ingreso mediano. La prioridad que asigna el Banco al medio ambiente en sus objetivos, su estrategia y sus programas es una señal tan importante para los países miembros como la medida de la asistencia financiera que ofrece.

Préstamos para fines ambientales e integración de las cuestiones ambientales en proyectos de otra índole

El monto de los préstamos directos para fines ambientales aumentó de US$564 millones en 1993 (7 proyectos) a US$1.072 millones en 1996 (15 proyectos), para luego disminuir a US$514 millones en 2000 (13 proyectos).

Algunos de los proyectos y programas ambientales del Banco se han tomado como modelo de los buenos resultados de los préstamos directos y de la integración del medio ambiente en otras operaciones, por ejemplo, el proyecto de rehabilitación de la cuenca hidrográfica de la meseta de Loess y el proyecto de ordenación sostenible de los recursos biológicos costeros en China, el proyecto de rehabilitación de tierras con alto contenido de sodio en Uttar Pradesh en la India, un proyecto sobre contaminación industrial en Bulgaria, el proyecto de

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délégués de l'Association internationale de développement (IDA), la Banque a insisté pour que ses pays emprunteurs mènent à bien la préparation de plans nationaux d'action environnementale (PNAE). À la fin de 2000, 92 PNAE (de plus ou moins bonne qualité) étaient achevés. Toutefois, la moitié seulement des stratégies d'aide-pays de la Banque (tirées d'un échantillon de stratégies se rapportant à la période 1992–99) qui ont été examinées replaçaient, comme il se doit, les questions environnementales dans un cadre intersectoriel.

Des progrès importants ont été accomplis dans les pays où les agents et les cadres opérationnels de la Banque ont fait preuve d'initiative en encourageant la prise en compte des questions environnementales et où le gouvernement reconnaît l'importance ces questions. Des pays aussi différents que la Chine, le Costa Rica, le Mozambique et la Pologne ont montré ce qu'il est possible d'accomplir lorsque les pouvoirs publics sont déterminés à améliorer la conception et l'application des politiques environnementales. De bons résultats ont été obtenus dans des pays à revenu faible aussi bien que dans des pays à revenu intermédiaire. À cet égard, la priorité accordée par la Banque à l'environnement au niveau de ses objectifs, de ses stratégies et dans ses programmes est une indication aussi importante pour les pays membres que le volume d'aide financière qu'elle peut offrir.

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much impact on project design. In a recent assessment of supervision quality, the Quality Assurance Group found that, for projects with significant safeguard aspects, the mitigation actions and arrangements were inadequate in 20 percent of cases. Some borrowers and task managers see environmental mitigation measures as an added cost and burden that retards project execution. Environmental assessments must contain a policing element, but the Bank's culture and structure have produced an unnecessarily adversarial relationship between compliance with safeguards and the promotion of environmental sustainability.

Global Challenges

Bank efforts to address global issues in research and analysis have been satisfactory. It has also begun developing effective partnerships. More could have been done to mitigate the local impacts of climate change or to address regional and transboundary issues. The Bank's attention to global issues—such as biodiversity, desertification, forest protection, ozone depletion, and climate change—is appropriate but tends to understate the importance of environmental concerns to local interests and welfare. Recent Bank research has shown, for example, that an approach to reducing particulate air pollution that produces great local health benefits is also nearly optimal for reducing greenhouse gases, while an approach that focuses initially on reducing greenhouse gases would

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ordenación de los recursos de tierras áridas en Kenya, proyectos de calefacción en distritos de Polonia y proyectos sobre contaminación atmosférica en México. Los resultados de los ingentes esfuerzos realizados en otros países por aplicar reformas necesarias y de vital importancia para el tratamiento del medio ambiente aún son inciertos.

Uno de los objetivos que se persiguen es la integración de las cuestiones ambientales en la formulación y la ejecución de todos los proyectos. Esto será más difícil de poner en práctica y de vigilar que el otorgamiento de préstamos directos para fines ambientales, pero sus efectos podrían ser mucho más espectaculares. En el pasado, la orientación sectorial del Banco hacía difícil que el personal que se ocupaba de cuestiones ambientales pudiera participar en proyectos de otros sectores y alentar la sensibilidad a las cuestiones ambientales. En la década de 1990 la proporción de préstamos para fines de ajuste que se ocupaba de cuestiones ambientales era sólo del 23%.

Salvaguardias y evaluaciones ambientales

El Banco ha atendido a los posibles efectos ambientales adversos de los proyectos que financia mediante la realización de evaluaciones ambientales y la aplicación de las políticas de salvaguardia conexas. Los exámenes del DEO han determinado que las políticas de salvaguardia ambiental del Banco son en general satisfactorias, pero

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Le financement des interventions environnementales et la prise en compte systématique de ces questions

Le volume des prêts directement consentis au titre d'activités environnementales est passé de 564 millions de dollars en 1993 (7 projets) à 1 072 millions de dollars en 1996 (15 projets) pour tomber à 514 millions de dollars en 2000 (13 projets). Certains des projets et des programmes environnementaux de la Banque sont des modèles d'opérations de prêts directs et d'inclusion systématique de l'environnement dans d'autres opérations ; c'est le cas, par exemple, des projets de réhabilitation du bassin versant du plateau de Loess et de mise en valeur viable des ressources côtières en Chine, du projet de régénération des terres sodiques en Uttar Pradesh (Inde), d'un projet de lutte contre la pollution industrielle en Bulgarie, d'un projet de gestion des ressources de terres arides au Kenya, de projets de chauffage de district en Pologne et de projets de lutte contre la pollution atmosphérique au Mexique. Il est encore trop tôt pour évaluer les résultats donnés par les efforts significatifs déployés dans d'autres pays pour procéder à des réformes importantes et cruciales dans le domaine de l'environnement.

L'un des buts recherchés consiste à assurer l'intégration systématique des questions environnementales dans la conception et l'exécution de tous les projets. Cette démarche sera plus difficile à mettre en œuvre et

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have much less impact on reducing local pollution. Bank country activities should focus more on the local impacts of global degradation of the environment and the local benefits of implementing a global environmental agenda.

Global environmental issues by their nature involve public goods, which market forces normally do not provide adequately. Nationally, public intervention to provide public goods is a government responsibility; internationally, addressing public goods issues requires collective action, the leadership of international bodies, and effective partnerships among public institutions, the private sector, and groups from civil society. The Bank has increased its efforts to form partnerships with key stakeholders, private sector interests, and local NGOs. The pent-up demand for a Bank role in multicountry partnerships remains strong.

Falling Short of High Expectations

By and large, OED's findings are similar to those for other donors' environmental programs. The Bank recognized the environment's strategic importance with creation of the Environment Department and reaffirmed it at the Rio conference, in the 1992 *World Development Report*, and in various presidential statements and individual initiatives. National Environmental Action Plans were supposed to be integrated into country strategies, environmental assessments were supposed to lead to sectoral and Regional assessments, and global concerns

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que los resultados de las evaluaciones ambientales han sido relativos. Con frecuencia las evaluaciones no se ejecutan (y las cuestiones de salvaguardia no se indican) con rapidez suficiente dentro del ciclo de los proyectos para que tengan alguna influencia en la formulación de los mismos. En una evaluación reciente de la calidad de la supervisión, el Grupo de Garantía de Calidad determinó que, tratándose de proyectos con importantes componentes de salvaguardia, las medidas y mecanismos de mitigación eran insuficientes en el 20% de los casos. Algunos prestatarios y jefes de proyectos consideran que las medidas de mitigación del daño ambiental constituyen un costo y una carga adicionales que retardan la ejecución de los proyectos. Las evaluaciones ambientales deben contener un elemento de vigilancia, pero la cultura y la estructura del Banco han producido una relación innecesariamente contradictoria entre el cumplimiento de las salvaguardias y el fomento de la sostenibilidad ambiental.

Problemas mundiales

Los esfuerzos del Banco por abordar los problemas mundiales en su labor de investigación y análisis han sido satisfactorios. Además, el Banco ha comenzado a forjar asociaciones eficaces. De todos modos, se podría haber hecho más para mitigar los efectos locales del cambio climático o para abordar los problemas regionales y transfronterizos. La atención que presta el Banco a las cuestiones de alcance mundial —como la

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à suivre que des opérations de prêt direct au titre de l'environnement, mais elle pourrait avoir des effets bien plus considérables. En raison du ciblage sectoriel des opérations de la Banque, il s'est avéré assez difficile pour les spécialistes de l'environnement de participer à des projets dans d'autres secteurs et de sensibiliser les parties prenantes à l'importance des questions environnementales. Dans les années 90, seulement 23 % des opérations de prêt à l'ajustement traitaient de questions environnementales.

Les mesure de sauvegarde et les évaluations environnementales

La Banque prend en compte l'impact négatif que pourraient avoir sur l'environnement les projets qu'elle appuie en procédant à des évaluations environnementales et en appliquant les mesures de sauvegarde correspondantes. L'OED a déterminé, dans le cadre de ses examens, que les mesures de sauvegarde environnementale de la Banque sont, dans l'ensemble, satisfaisantes mais que les résultats obtenus au plan de la réalisation des évaluations environnementales sont mitigés. Dans de nombreux cas, ces évaluations n'ont pas été achevées (et les problèmes nécessitant l'adoption de mesures de sauvegarde n'ont pas été identifiés) à un stade suffisamment précoce du cycle du projet pour pouvoir avoir un impact sur la conception de ce dernier. À l'occasion d'une récente évaluation de la qualité des activités de supervision, le Groupe

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were supposed to be integrated into country programs, not just added on. Why didn't this happen? The preponderance of evidence suggests the following:

- Country Assistance Strategies have tended to treat the environment as just another sector competing for attention, rather than as a crosscutting theme, and have not made explicit (and built upon) the link between environmentally sustainable development and poverty reduction.
- The Bank's safeguard policies (to prevent or mitigate environmental harm from its projects) were sound in concept but unaccompanied by clear standards and inconsistently implemented. This has diverted attention to damage control.
- The Bank's efforts in dealing with global issues have been hampered by con-flicts between their early formulation as goals external to member countries and the Bank's strong country orientation.
- The structure of priorities, incentives, and accountability processes—from senior management on down the line—has not supported a strategic emphasis on the environment, rigorous monitoring, or positive recognition of environmental staff and activities.

These shortcomings will be addressed by the new environmental strategy recently endorsed by the Board of

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diversidad biológica, la desertificación, la protección forestal, el agotamiento de la capa de ozono y el cambio climático— es apropiada, pero tiende a minimizar la importancia de las cuestiones ambientales para los intereses y el bienestar locales. Las investigaciones recientes del Banco han demostrado, por ejemplo, que un sistema de reducción de los contaminantes atmosféricos sólidos que produce grandes beneficios para la salud local, es además casi óptimo para la reducción de los gases de efecto invernadero, en tanto que un sistema centrado inicialmente en la reducción de los gases de efecto invernadero sería mucho menos eficaz para reducir la contaminación local. Las actividades del Banco en los países deberían prestar más atención a los efectos locales de la degradación del medio ambiente mundial y a los beneficios que reporta a nivel local la ejecución de un programa ambiental mundial.

Los problemas ambientales mundiales guardan relación por su naturaleza con los bienes públicos, los que las fuerzas del mercado generalmente no proporcionan en cantidad suficiente. A nivel nacional, la intervención pública para el suministro de bienes públicos es responsabilidad del gobierno; a nivel internacional, para abordar el problema de los bienes públicos se requiere una acción colectiva, la función rectora de los órganos internacionales y el establecimiento de asociaciones eficaces entre las instituciones públicas, el sector privado y las agrupaciones de la sociedad civil. El Banco se ha esforzado más por

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de contrôle de la qualité a déterminé que les actions et les dispositions adoptées pour atténuer les impacts négatifs ont été inadéquates dans 20 % des projets pour lesquels il était important de prendre des mesures de sauvegarde. Certains emprunteurs et certains chefs de projets considèrent que les mesures d'atténuation des environnementales représentent une charge et un coût supplémentaires et ne font que ralentir l'exécution du projet. Les évaluations environnementales doivent avoir une certaine connotation disciplinaire, mais la culture et la structure de la Banque ont produit une relation inutilement conflictuelle entre le respect des mesures de sauvegarde et la promotion de la viabilité environnementale.

Les problèmes mondiaux

Les efforts déployés par la Banque pour s'attaquer à des problèmes d'envergure mondiale dans le cadre de ses travaux de recherche et d'analyse sont satisfaisants. L'institution a également entrepris de forger des partenariats efficaces. Elle aurait pu faire davantage pour atténuer l'impact au niveau local des changements climatiques ou s'attaquer à des questions de portée régionale et transfrontières. L'attention qu'elle prête aux questions d'envergure mondiale — comme la diversité biologique, la désertification, la protection des forêts, l'appauvrissement de la couche d'ozone et les changements climatiques — est adéquate mais a tendance à faire oublier l'importance des préoccupations environnementales pour les

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Directors, restoring the environment to its role in the Bank's long-term development agenda.

Next Steps

The environment strategy paper provides an opportunity to achieve a realistic and workable consensus among Bank members about the Bank's future role in environmental efforts. Toward that end, OED offers these broad medium-term recommendations, among others. The Bank should:

- Build on its comparative advantage and analytical capacity to demonstrate the environment's critical role in sustainable development and poverty reduction.
- Review its environmental safeguard oversight system and processes, to strengthen accountability for compliance.
- Continue to update its policy framework, adapting it to changing practices and new Bank instruments and to take account of recent experience.
- Help implement the global environmental agenda by concentrating on global issues that involve local and national benefits.

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crear asociaciones con los principales interesados, el sector privado y las ONG locales. Sigue habiendo una fuerte demanda para que el Banco estimule la cooperación multinacional.

Las grandes expectativas no cumplidas

En general, las conclusiones del DEO son similares a las relativas a los programas ambientales de otros donantes. El Banco reconoció la importancia estratégica del medio ambiente con la creación del Departamento del Medio Ambiente y la reafirmó en la Conferencia de Rio, en el *Informe sobre el desarrollo mundial 1992* y en diversas declaraciones del Presidente e iniciativas individuales. Se partió del supuesto de que los planes de acción nacionales sobre el medio ambiente se integrarían con las estrategias de asistencia a los países, que las evaluaciones ambientales darían origen a evaluaciones sectoriales y evaluaciones por parte de las oficinas regionales y que los problemas mundiales no serían un mero agregado a los programas de los países sino que quedarían incorporados en ellos. ¿Por qué no ocurrió así? La mayor parte de los datos apuntan a lo siguiente:

- Las estrategias de asistencia a los países han tendido a tratar al medio ambiente simplemente como un sector más entre los que se disputan la atención, en lugar de considerarlo un tema intersectorial, y no han expresado en forma categórica el vínculo que existe entre un desarrollo ambientalmente sostenible y la reducción de la

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intérêts et le bien-être des populations locales. Les travaux récemment consacrés par la Banque à ce sujet montrent, par exemple, qu'une démarche visant à réduire la pollution atmosphérique due aux particules en suspension qui a d'importants effets positifs sur la santé de la population locale contribue également de manière quasiment optimale à réduire les émissions de gaz à effet de serre, tandis qu'une démarche axée initialement sur la réduction des gaz à effet de serre aurait un impact moindre sur la réduction de la pollution à l'échelon local. Les activités menées par la Banque dans les pays devraient cibler davantage l'impact local de la dégradation de l'environnement à l'échelle mondiale ainsi que les avantages procurés aux populations locales par la mise en œuvre d'un programme environnemental mondial.

Les questions environnementales de portée mondiale font intervenir, par définition, des biens publics que les forces du marché ne produisent normalement pas de manière adéquate. Au plan national, la responsabilité de la fourniture des biens publics incombe à l'État ; au plan international, la résolution des problèmes concernant les biens publics exige une action collective menée sous l'égide d'organismes internationaux ainsi que la constitution de partenariats efficaces entre les institutions publiques, le secteur privé et des groupes de la société civile. La Banque a intensifié ses efforts dans le but de forger des partenariats avec les principales parties

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pobreza ni lo han tomado como fundamento.

- Las políticas de salvaguardia del Banco (establecidas para prevenir o mitigar el daño ambiental derivado de sus proyectos) se basaban en un concepto sólido pero no estaban acompañadas de normas claras y no se aplicaban de forma sistemática. A causa de ello, la atención se ha desviado hacia la reparación de los daños.
- Los esfuerzos desplegados por el Banco para hacer frente a los problemas mundiales se han visto obstaculizados por la contradicción entre su formulación preliminar como objetivos ajenos a los países miembros y la fuerte orientación del Banco hacia los países.
- La estructura de las prioridades, los incentivos y los procesos de rendición de cuentas —desde la administración superior para abajo— no ha sido propicia para un énfasis estratégico en el medio ambiente, una supervisión rigurosa o un reconocimiento positivo del personal que se ocupa del medio ambiente y sus actividades.

La nueva estrategia ambiental aprobada recientemente por el Directorio Ejecutivo subsanará esas deficiencias, con lo que se restablecerá el papel que corresponde al medio ambiente en el programa a largo plazo del Banco en materia de desarrollo.

Los próximos pasos

El documento de estrategia ambiental ofrece la oportunidad de lograr un consenso realista y

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prenantes, des intérêts du secteur privé et des ONG locales. Sa participation à des partenariats plurinationaux continue d'être sollicitée.

Des attentes ambitieuses qui ne sont toujours pas satisfaites

Dans l'ensemble, les conclusions de l'OED sont similaires à celles qui ont été formulées à l'égard des programmes environnementaux d'autres bailleurs de fonds. La Banque a montré qu'elle comprenait l'importance stratégique de l'environnement lorsqu'elle a créé le département de l'environnement et a réaffirmé l'intérêt qu'elle porte à cette question à l'occasion de la conférence de Rio, de la publication du Rapport sur le développement dans le monde 1992, de diverses déclarations du président et de nombre d'initiatives. Les plans nationaux d'action environnementale devaient être intégrés dans les stratégies formulées pour les pays, les évaluations environnementales étaient censées déboucher sur des évaluations sectorielles et régionales, et les préoccupations d'envergure mondiale devaient être intégrées dans les programmes nationaux et non pas simplement annexés à ces programmes. Pourquoi cela ne s'est-il pas produit ? Les nombreux éléments d'information disponibles suggèrent que :

- Les stratégies d'aide-pays considèrent l'environ-nement comme un secteur supplémentaire auquel il faut prêter attention et non pas comme un problème

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factible entre los miembros del Banco acerca del papel futuro de éste en la acción sobre el medio ambiente. A ese efecto, el DEO presenta estas recomendaciones generales a mediano plazo, entre otras. El Banco debería:

- Aprovechar su ventaja comparativa y su capacidad de análisis para demostrar el papel decisivo que cumple el medio ambiente en el desarrollo sostenible y la reducción de la pobreza.
- Revisar su sistema de supervisión de las salvaguardias ambientales y los procesos correspondientes, a fin de reforzar la responsabilidad de su cumplimiento.
- Seguir actualizando su marco normativo y adaptarlo a las nuevas prácticas y a los nuevos instrumentos del Banco y tener en cuenta la experiencia reciente.
- Ayudar a poner en práctica el programa mundial sobre el medio ambiente, concentrándose en problemas de envergadura mundial que conllevan beneficios locales y nacionales.

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intersectoriel ; elles ne définissent pas clairement les liens entre un développement écologiquement durable et la réduction de la pauvreté, et ne les exploitent pas.

- Les mesures de sauvegarde de la Banque (qui visent à prévenir ou à atténuer les dommages causés à l'environnement par ses projets) sont bien conçues mais ne sont pas accompagnées de normes clairement formulées ; elles sont, en outre, appliquées de manière inégale. Il s'ensuit que l'attention s'est portée sur les mesures prises pour limiter les dégâts.
- Les efforts déployés par la Banque pour faire face aux problèmes d'envergure mondiale ont été compromis parce que, au départ, les objectifs en ce domaine ont été formulés comme des préoccupations qui débordaient du cadre national alors que les activités de la Banque sont définies par référence aux pays.
- La structure des priorités, des incitations et des processus de responsabilisation — de la direction au personnel opérationnel — n'est pas favorable à une stratégie axée sur l'environnement, un suivi rigoureux de la question ou la reconnaissance des efforts du personnel et des activités concernant l'environnement.

Il sera remédié à ces carences dans le cadre de la nouvelle stratégie environnementale que viennent d'entériner les administrateurs, et qui fait de l'environnement l'un des objectifs

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du développement à long terme de la Banque.

Action future

Le document sur la stratégie environnementale fournit aux pays membres de la Banque l'occasion de forger un consensus réaliste et applicable sur le rôle que l'institution devra jouer dans le domaine de l'environnement. À cette fin, l'OED présente, entre autres, plusieurs catégories de recommandations pour le moyen terme selon lesquelles la Banque devrait :

- Exploiter l'avantage comparatif dont elle jouit ainsi que ses capacités d'analyse pour exposer la contribution cruciale de l'environnement à un développement durable et à la réduction de la pauvreté.
- Examiner le système de supervision et le processus d'application des mesures de sauvegarde environnementale afin de mieux rendre compte de leur application.
- Continuer d'adapter le cadre de ses politiques et procédures face à l'évolution des pratiques et de ses propres instruments, et compte tenu de l'expérience acquise.
- Contribuer à l'application du programme d'action environnementale mondial en portant son attention sur les questions de portée mondiale qui ont des avantages au plan local et national.

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
BP	Bank Procedure
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CDF	Comprehensive Development Framework
CEO	Chief Executive Officer
CIDA	Canadian International Development Agency
DFID	Department for International Development (United Kingdom)
EA	Environmental Assessment
ENVIS	Environmental Information System
ESSD	Environmentally and Socially Sustainable Development Network
ESW	Economic and Sector Work
GDP	Gross Domestic Product
GEF	Global Environment Facility
HIPC	Highly Indebted Poor Country Initiative
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IUCN	International Union for the Conservation of Nature
NEAP	National Environmental Action Plan
NGO	Nongovernmental Organization
OD	Operational Directive
OECD	Organisation for Economic Cooperation and Development
OED	Operations Evaluation Department
OMS	Operational Manual Statement
OP	Operational Policy
OPN	Operational Policy Note
OPS	Operations Policy and Strategy Department
PCD	Project Concept Document
PRSP	Poverty Reduction Strategy Paper
QAG	Quality Assurance Group
USAID	United States Agency for International Development
WDR	World Development Report

1 Introduction

This is the first OED evaluation of the World Bank's overall environmental strategy since the Environment Department was created in 1987. It provides an independent assessment of World Bank performance and draws lessons from experience.[1] It is timed to inform the new environmental strategy being formulated by the Environmentally and Socially Sustainable Development (ESSD) Vice-Presidency.

Assessments of environmental programs conducted by OED, the Environment Department, regional units, and others constituted the starting point for the evaluation. Background reviews of Bank performance were commissioned in selected countries and areas critical to the environmental strategy.[2] Two surveys of staff were conducted, and numerous staff were interviewed.[3] Extensive consultations were held with stakeholders in the Regions. Two Internet forums were conducted. The OED evaluation team worked closely with the environment strategy team and shared information and drafts. An Advisory Panel reviewed the drafts and served as a sounding board for the recommendations.[3]

This report presents the highlights and recommendations of the evaluation. Supporting evidence is provided in a background technical report (Shilling 2000). This report deals with the environmental performance of the International Bank for Reconstruction and Development (IBRD) and the International Development Assocation (IDA). Since stakeholders and the Advisory Panel have urged that the whole World Bank Group share a common approach and strategy, the ESSD environment strategy formulation team has consulted with the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), and the strategies of those members of the World Bank Group will be formulated in light of the strategy developed by ESSD.

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2 The Historical Context

Environment in the World Bank

The Bank created the Office of the Environmental Adviser in 1970 in reaction to externally voiced concerns about the potential unplanned effects of Bank-supported projects. The office was given a small staff, reviewed all projects, and recommended changes where necessary. Its impact was modest, and Bank project officers widely regarded it as an "adversary." It remained isolated from the Bank's "mainstream," and by the mid-1980s the Bank was lagging behind other multilateral agencies and bilateral donors in implementing environmental policies and practices.[1]

Several Bank projects (including the Polonoroeste project in Brazil and the Narmada project in India) subsequently elicited strong negative public reactions owing to their adverse environmental and social impacts. Complaints were registered by the Bank's major shareholders and by environmental nongovernmental organizations (NGOs). In response, an Environment Department was created, the number of environmental staff was sharply increased, environmental safeguard policies were instituted, and a program of environmental lending was launched during the 1987 reorganization. The new department was given wide responsibilities for developing new environmental initiatives (often with Regional staff), performing regular environmental reviews of projects (including authority over environmental design aspects), and strengthening the Bank's environmental policies. The department launched initiatives to assess environmental conditions in borrower countries, introduced mechanisms to improve them,[2] and set up a computer database to track project content and implementation.[3]

In preparation for the 1992 United Nations Conference on Environment and Development in Rio de Janeiro, the Bank set up 23 task forces to provide technical input on a wide range of issues related to the environment and development. It also agreed to help member countries fulfill their obligations under international conventions. The 1992 *World Development Report (WDR), Development and the Environment,* was a major intellectual contribution and advanced thinking on the environment within the Bank and in the development community at large.[4] The

Bank also led efforts to address global issues as an implementing agency for the Montreal Protocol on substances that deplete the ozone layer and as one of the three executing agencies of the Global Environment Facility (GEF).

Translating the Bank's wide-ranging agenda into concrete action has proved difficult, however. Unclear objectives in the Environment Department in its early years and poor coordination between the Environment Department and the Regional environmental divisions led to tension and confusion. Each unit vied for resources and control of the environmental agenda. This led to a series of structural changes that gradually transferred more resources and authority to the Regions.

In the early 1990s the Technical Departments provided Regional leadership on environmental issues, with technical support and a focus on broad issues being provided by the Environment Department. The 1996 reorganization further reduced the role of the center, leading to a loss of momentum on crosscutting issues and reinforcing sectoral treatment of the environment. More recently, the Environment Sector Board and the ESSD Network Council have been working to enhance the role of the center in coordinating environmental initiatives and in shaping a new environmental strategy.

The Bank has adopted environmental sustainability as a corporate goal.

Environmental Policy and Strategy

The Bank has adopted environmental sustainability as a corporate goal. According to the Brundtland Commission, sustainable development "meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development 1987). So far, no one has translated this broad and appealing statement into direct operational guidance for the Bank. Analyses of what it takes to achieve sustainability have been undertaken for a number of specific biological and physical topics, but it has not been possible to aggregate these into variables or indicators that apply on a national level.[5]

In order to guide its operations, the Bank issued formal environmental policies, matching best practice in other international financial institutions (in particular, the Asian Development Bank and the United States Agency for International Development). Environmental assessments were formalized in Operational Directive (OD) 4.01 in 1991.[6] Other policies grounded in Operational Manual Statements and Operational Policy Notes were later added.[7] Undertakings called for by the IDA deputies included preparation of National Environmental Action Plans (NEAPs), inclusion of environmental issues in Country Assistance Strategies (CASs), and public disclosure of environmental assessment documents (Shilling 2001).

While not espousing a formal sector strategy, the 1992 WDR was widely accepted as the strategic framework for the Bank's environmental activities. It was supplemented by annual *Environment Reports* (1990–95) and subsequently by an annual publication called *Environment Matters*. Two complementary policy approaches were identified in the WDR: those that build on the positive links between development and the environment ("win-win") and those that break the negative links.

The first approach focused on exploiting the synergies between poverty reduction and environment, removing subsidies with negative environmental externalities, and clarifying property rights regimes for land, forests, and fisheries. The WDR recognized that such policies, by themselves, were not enough. The second approach recognized that strong institutions and policies targeted at specific environmental problems were essential to break the negative links. Furthermore, the WDR emphasized that the environment is a crosscutting issue that needs to be addressed in operations in most sectors. This implied a strong commitment to integration of environmental concerns in all Bank activities—what is commonly known as "mainstreaming."

Critics of the Bank have suggested that the focus on win-win did not take full account of the tradeoffs implicit in many environmental policies and understated the opposition of those who

stood to lose, as indicated by difficulties in implementation. There was widespread concern about the environmental "Kuznets Curve," which assumes that environmental degradation increases with economic growth at low income levels but is eventually reversed as incomes rise above a distinct "inflection" point associated with each form of degradation (World Bank 1992b).[8]

However, such views were deemed by environmental experts inside and outside the Bank as too complacent and implicitly supportive of the discredited doctrine of "grow now and fix the environment later." The Bank does not subscribe to this view and has issued guidelines and publications, such as *The Pollution Prevention and Abatement Handbook* (World Bank 1999b), demonstrating effective ways to improve the environment at all stages of development. Unfortunately, some Bank operational staff still argue that selectivity and the important role of growth in poverty reduction are valid reasons to give a low priority to the environment in low-income countries.

External Situation

For the past three decades, the environment has been a highly contentious aspect of Bank work. Much negative publicity materialized because of Bank involvement in several high-profile, high-risk projects, including the Narmada dam in India, the proposed Arun dam in Nepal, the Itaparica Resettlement and Irrigation project in Brazil, and, most recently, the Chad-Cameroon Pipeline project and China Western Poverty Reduction project. Concerns about the mixed implementation record of Bank safeguard policies precipitated the creation of an Inspection Panel in 1993 to review and investigate claims by eligible local parties regarding alleged lack of compliance with Bank policies.[9]

Chronic concerns about the application of safeguard policies have led the Bank to initiate process reforms, to take a more environmentally constructive approach to high-profile projects (for example, at Nam Theun dam in Laos), and to withdraw from controversial projects, often at the request of the borrower. Developing country governments have criticized the Bank for giving in to the views of advocacy NGOs, while developed country governments have criticized the Bank's efforts to apply the safeguards and have urged it to do more to promote the environment.

Many developing country governments view international concern over environmental problems in their countries as intrusive and likely to impede development.

Many developing country governments view international concern over environmental problems in their countries as intrusive and likely to impede development. They argue that developed countries have overexploited the environment, have refused to take full responsibility for mitigation of their own impacts on the global commons, and want to shift that responsibility to the developing countries without adequate compensation. This perception has substantial validity, and it has complicated the role of the Bank. At the same time, public tolerance for inadequate compliance by the Bank of its own policies is low. All member country governments expect the Bank to deliver on its promises, and therefore to promise only what it can deliver.

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3 The Bank's Record

Bank Objectives

The Bank sharply increased its attention to the environment in its operations after 1987. Its efforts were guided by a series of policies, procedures, and management instructions issued over time, including a series of papers for the Development Committee, the IDA replenishment recommendations (IDAs 9–12), the WDR of 1992, annual environmental reports, and diverse initiatives.[1] All together, these documents defined a fourfold agenda consisting of:

- *Stewardship:* To help member countries develop environmental priorities, build institutions, and implement programs to support environmental sustainability. Operationally, this would be implemented by setting standards for the Bank's own strategy, research, and policy efforts regarding the environment and by helping countries prepare environmental action plans, integrate short- and long-term environmental concerns into country strategies, and through capacity building and policy dialogue with core economic ministries.
- *Mainstreaming:* To help member countries build on the positive linkages between poverty reduction, economic efficiency, and environmental protection. The Bank would implement this by making environmental sustainability a core objective in its operational activities and economic and sector work (ESW) and by using its lending to address environmental issues through direct environmental projects and, more important, by integrating environmental objectives into Bank activities in general and into sectoral projects in particular. Designing and using appropriate environmental indicators was to be used to set targets and monitor results.[2]
- *Safeguards:* To ensure that potential adverse environmental impacts from development projects were addressed. This would be implemented through environmental assessment (EA) and related safeguard policies. These assessments would be undertaken as early in the project cycle as possible, and the assessment process would be fully understood by all staff.
- *Global Environment:* To ensure that global and transnational environmental challenges are properly addressed in member countries. This would be implemented by raising aware-

ness of these issues and supporting actions in member countries to reduce adverse impacts on the global environment and by using the Bank's convening power to build understanding and partnerships around these issues. The Bank has a special responsibility to focus on the local impacts of global environmental degradation, and the local benefits of implementing the global environmental agenda in member countries.

The first three elements were well within the Bank's mandate to assist developing countries. The fourth extended its responsibility beyond national development issues to a range of global topics, including promoting environmental awareness, supporting international conventions,[3] and executing GEF projects. This agenda implied full integration of the environment as a core theme in the Bank's overall program. In practice, however, the environment has all too often been treated as just another sector competing for attention rather than as a crosscutting theme.

Seminal work was done on natural capital, environmental indicators, and "green accounting" by the Environment Department.

Under the leadership of President Barber Conable, the Bank's allocation of resources to environmental activities increased substantially after the 1987 reorganization. Staffing went from a handful before the reorganization to 70 in 1990 and 300 in 1995. It leveled off at around 250 in 2000.[4] Budgets evolved in a similar fashion. However, in an effort to strengthen its country focus, the Bank adopted a cumbersome chargeback system whereby country program units contracted for environmental staff time. This fragmented environmental work, damaged the morale of staff required to report their "billable hours," and reduced efforts on crosscutting and cross-border issues. Currently, only about one-third of the budget resources of Bank environmental units are their own funds. The rest are contracted from other budgets. Increased reliance on external trust funds has made it difficult to get a precise measure of amounts spent.[5]

Stewardship, Policy, and Strategy

Following the 1992 U.N. conference in Rio, and at the urging of the IDA deputies, the Bank pressed forward with the completion of NEAPs or their equivalent in member countries. Many of these documents took longer to complete than expected, especially recent NEAPs, which went to great lengths to promote the participation of local stakeholders. By the end of 2000, 92 NEAPs had been completed.[6] These documents were intended to build national commitment to environmental sustainability and to define concrete programs to be implemented, with Bank assistance where needed. They did lead to a number of institution-building projects and identification of important issues. Overall quality was mixed, however, and there has not been a regular program to keep them up to date.

During the past decade, the Bank has both undertaken and sponsored a great deal of policy analysis and ESW on environmental issues. The Research Department allocated more than 10 percent of its resources during the 1990s to environmental issues. Much of this work was highly regarded and has contributed to a better understanding of the role that environmental factors play in development and of how to quantify environmental impacts. Seminal work was done on natural capital, environmental indicators, and "green accounting" by the Environment Department. Environmental data are regularly published in the World Development Indicators and are summarized in a new annual publication, *The Little Green Data Book* (World Bank 2000c). With the adoption of holistic long-term development as a Bank priority through the Comprehensive Development Framework (CDF), there is a need for more research to probe the linkages between the environment, sustainable livelihoods, and poverty reduction.

Environmental Lending and Mainstreaming

Although good data are available for direct Bank lending for environmental projects and institution building, considerably less attention has been given to providing guidance or monitoring funding for environmental mainstreaming (see box). This is unfortunate in light of the

Mainstreaming the Environment

Both inside and outside the Bank, confusion exists as to what mainstreaming the environment is. The definition used in this paper is based on the definition used in the IDA Ninth Replenishment: "to integrate environmental concerns into broader operational and analytical activities." At the project level, this entails moving beyond "safeguarding" the environment through compliance with "do-no-harm" policies to "doing good" for the environment. Direct environmental projects may contribute, but the thrust is to incorporate attention to environmental concerns into Bank activities supporting institutional development and into decisions about projects, policies, and programs. To help pin down how this would occur, here are two cases, one where mainstreaming occurred successfully, and one where it did not.

Best practice: *China—Sustainable Coastal Resources Development*. This project evolved from a production-oriented project to one focused on sustainability. Originally consisting of three components: construction and rehabilitation of shrimp ponds, expanding eel production, and new aquaculture facilities, the project objective shifted to the sustainable development of coastal resources after an analysis of the project's environmental impact. The project will enhance the environment through the design and implementation of coastal zone management plans, siting and selection of production components to stay within local carrying capacity, conservation of endemic species by protected area management, hatchery development to take pressure off natural stocks, and the provision of facilities for environmental monitoring.

Not best practice: *Yemen–Fourth Fisheries Development.* The main objective of this project was to expand fish catches and improve processing. Although it included provisions for a Fish Stock Assessment, an internal Bank document noted that the technical assistance provided did not have any impact. Another document reported the urgent need to assess the state of fish stocks that were apparently being overfished. Other studies (such as a marine resources status report) were undertaken, but their recommendations were not implemented. For example, fish catches were not limited to recommended levels.

importance that policy statements give to integrating environmental concerns broadly into the Bank's program.

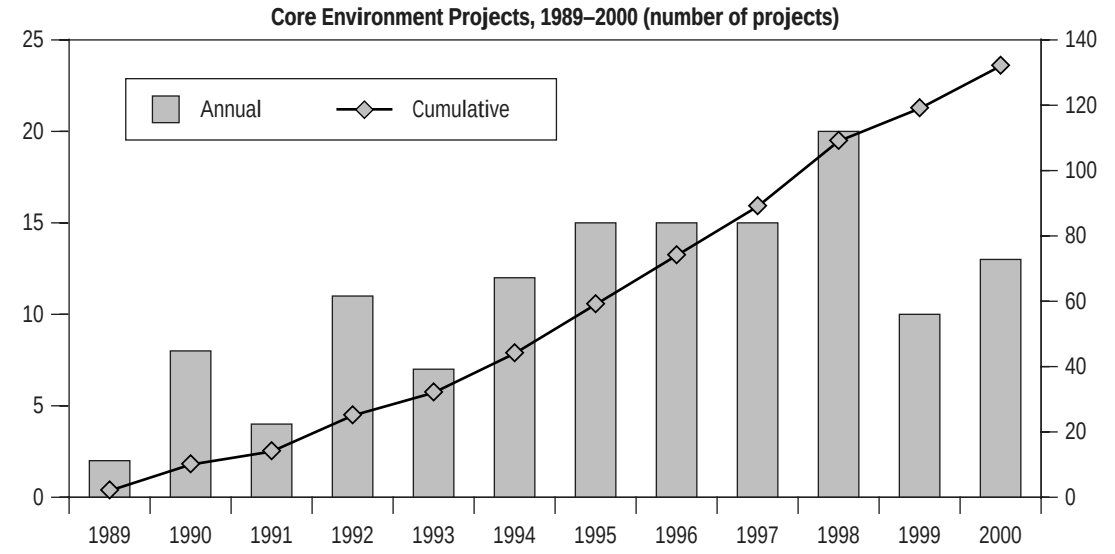
As shown in the figures below, the portfolio of direct environmental projects rose from $564 million in 1993 (7 projects) to $1,072 million in 1996 (15 projects), but dropped to $514 million in 2000 (13 projects).[7] The portfolio includes projects that address sustainable natural resource management (36 percent of the portfolio for fiscal 2000), pollution management and urban environmental improvements (47 percent), institutional development and capacity building (8 percent), and global issues, such as protection of international waters and biodiversity, mitigation of greenhouse gas emissions, and phase-out of ozone-depleting substances (9 percent).[8] IBRD lending has concentrated more on pollution-abatement issues (the "brown agenda"), while IDA credits have been weighted more toward natural resource management (the "green agenda"), since IDA borrowers tend to depend more directly on these resources for ensuring sustainable livelihoods.[9] The trend in new projects in both categories peaked in 1996 (amount) and in 1998 (numbers).[10]

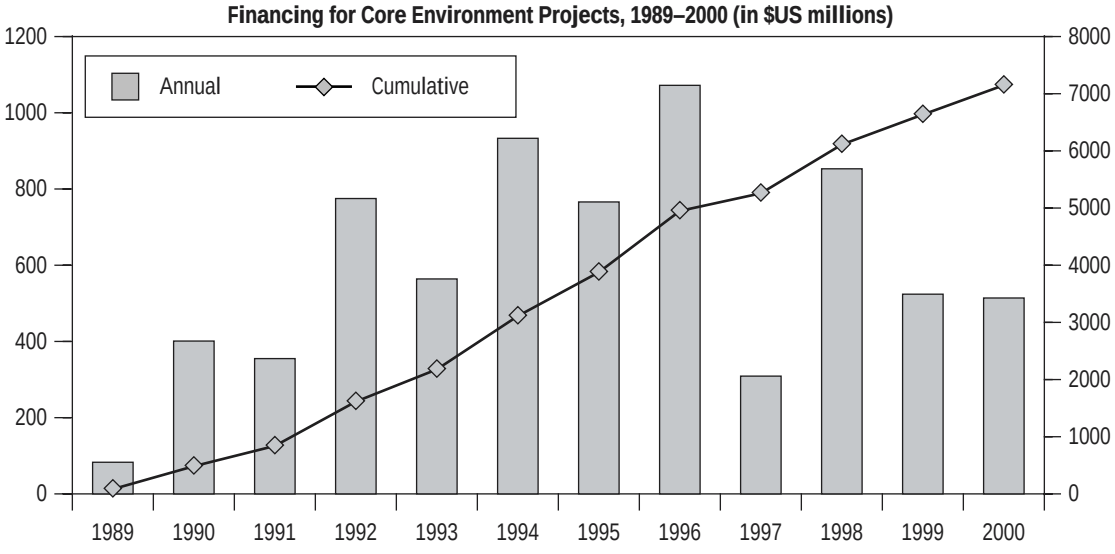
In addition, a wide range of Bank projects have explicitly included environmental components (for example, forest protection in a highway project, or wastewater treatment in an energy project). Various attempts have been made to monitor this mainstreaming, but no consistent criteria for doing so have emerged, and reliable time series do not exist to indicate whether environmental component lending has offset the decline in direct lending.[11]

Analysis of environmental components alone misses a major objective of mainstreaming.

Analysis of environmental components alone misses a major objective of mainstreaming—consideration of environmental factors in the design of projects, even where there is no explicit environmental component. The lack of guidelines for monitoring of the extent of mainstreaming is itself a cause for concern. Lack of commitment by countries and country managers, budget constraints, and the ascendancy of other priorities have been cited as reasons.[12]

Evolution of the World Bank's Environment Portfolio





Source: World Bank Business Warehouse.

Beyond its own lending, the Bank is a major implementing agency for the Montreal Protocol and the GEF. Efforts under the former are now largely completed and have been successful. The Bank has consistently exceeded its annual targets for phasing out ozone-depleting substances (World Bank 1999a, 2000d). GEF grants have grown in line with available resources, and GEF projects have been catalytic in bringing global environmental issues to the fore and helpful in mainstreaming the increase in GEF disbursements through the Bank. Bank cofinancing of GEF projects has increased since 1997 to about 20 percent, on average.

While acting as an important source of leverage in expanding the scope of Bank lending, GEF support is provided only for incremental costs associated with global environmental issues. It was never intended to be a large portion of Bank environmental support. Bank staff have noted, however, that using GEF funds is almost the only way to get an environmental project into the program in some countries. This limits environmental interventions to global areas covered by the GEF and hinders progress toward the GEF's goal of leveraging its impact by addressing the incremental costs of global issues through joint Bank/GEF operations. The Bank has been working with the GEF to simplify procedures[13] and to improve the development impact of GEF grants. In general, the availability of grant funding (from other donors) for many environmental activities in borrower countries has reduced interest in borrowing from the IBRD and IDA for environmental purposes.

Over the past decade, the overall composition of Bank lending has shifted from project-based operations to adjustment lending and now to new forms of programmatic lending. Adjustment lending amounted to about one-quarter of total lending over the decade. In FY 1999 it rose to $15.3 billion (52.9 percent of total lending) and exceeded investment lending, but declined to 33.4 percent in fiscal 2000 as the East Asian crisis receded (World Bank 2001). The Bank has not made a concerted effort to incorporate environmental concerns into these types of operations. Central guidance has been limited, and despite the identification of critical policy issues with substantial environmental impact in the 1992 WDR and subsequent analyses, there has been a great deal of ambivalence regarding the incorporation of environmental considerations into adjustment lending.[14]

Safeguards and Environmental Assessments

The Bank's environmental safeguard policies have been reviewed twice[15] and found to be generally satisfactory. All Bank investment projects are covered. Between FY90 and FY00, 210 projects (about 14 percent of the Bank's portfolio by loan amount) were classified as Category A (requiring a full EA). Another 1,004 projects, nearly 35 percent of Bank lending, were classified as Category B (requiring a limited or targeted EA). About 51 percent were classified as Category C (requiring no environmental analysis) (World Bank 2000a). There has not been a discernable trend over the period.

There has been great ambivalence regarding the incorporation of environmental considerations into adjustment lending.

In most cases, the EA process has identified environmental impacts and has led to satisfactory redesign or mitigation. In some instances, environmental staff have used the reviews to suggest improvements in projects outside the EA process and to incorporate environmental concerns in other sectors. Along with increased delegation of authority to country units, funding for safeguard implementation has been included in regular task budgets. However, there was no independent funding or staff assignment for monitoring and implementing the safeguards until FY01.

The EA process has not been foolproof. The most visible failures of the Bank on environmental issues have stemmed from actual or alleged failures to implement the EA process fully and creatively.[16] Creation of the Inspection Panel was one reaction to external pressure.[17] There have been allegations of many more violations that have not been submitted to the Inspection Panel, but there has been no systematic analysis of these concerns, and no conclusions can be drawn. The most recent Quality Assurance Group (QAG) assessment of supervision quality found that, in a sample of 150 projects, 5 percent had significant safeguard issues that had not been identified at the time of approval. For projects with safeguard aspects, the mitigation of adverse impacts and arrangements for monitoring compliance were inadequate in 20 percent of the cases.

Global Concerns

The Bank has used its advisory services and convening power to raise awareness of global environmental issues among member countries. It has

supported country actions in line with international conventions and supported the GEF. The issues of biodiversity and climate change have important local impacts and must be addressed in the context of local support and generation of local benefits, which can be substantial. For example, recent Bank research has shown that one approach to reducing particulate air pollution that has large local health benefits is also nearly optimal for reducing greenhouse gases, while another approach that focuses initially on reducing greenhouse gases would have much less impact on reducing local pollution.

Global environmental issues are concerned by their very nature with public goods. Normal market forces do not typically result in adequate provision of these goods, and public intervention is therefore needed. Within national boundaries, such intervention is usually the responsibility of government, which is supposed to protect the common good. On the international level, public goods issues require collective action. Thus, leadership by international bodies, and effective partnerships among civil society groups, public institutions, and the private sector, are critical. The Bank has increased its efforts to form partnerships with key stakeholders, including local environmental coalitions (MesoAmerica), NGOs (World Resources Institute and World Wildlife Fund), private sector interests (forest company CEOs), and local NGOs (in the GEF and the new Critical Ecosystems Fund). The need for a continuing Bank role in multicountry partnerships remains strong.

The Bank was instrumental in the creation of the World Commission on Dams, based in part on the Bank's increasing concern about the environmental and social impacts of large dams. In a consensus report, the commission proposed global guidelines for dam building through a process that would involve all interested parties. It remains to be seen how the commission's recommendations will be put into effect by the Bank.

During the period under review, the Bank's performance on the environment has improved in a number of areas, but progress has been halting and fragmented. Bank strategy has been ambivalent, leading to uncertainty about whether to treat the environment as a sector or as a theme. Guidelines and expectations about performance have not been clear. Indicators, monitorable targets, and regular evaluation of progress on the environment have been the exception rather than the rule. Accountability has been weak. Managers have not been systematically held accountable for meeting Bank objectives or complying with Bank policies in this area. These shortcomings should not distract from the many successes that have been achieved, but they highlight why performance has not lived up to Bank rhetoric and help explain the continuing dissatisfaction with the Bank's performance on the environment among responsible external critics, as well as the frustrations felt by many environmental staff.[18]

4 Main Findings

The crosscutting nature of environmental issues and the variety of interventions relevant to protecting the environment make it difficult to apply the usual portfolio approach to this evaluation. Shareholder expectations and the Bank's own strategic formulations have conceived of the environment as a theme rather than a sector. Operationally, and in its organizational structure, however, the reverse has been true. Accepting the thematic approach as dominant, this evaluation looks at how well the Bank has performed on the objective of incorporating the environment into its activities, as well as its performance on environmental projects and safeguards.

The absence of an explicit strategy statement and the lack of agreed and verifiable corporate and country performance indicators have hindered the conduct of this evaluation. However, the intent of numerous Bank policy statements is clear: to integrate the environment into the Bank's development agenda. Accordingly, over and above the record on projects, country strategies, and other activities, this evaluation looks at how internal organization, incentives, and accountability structures have affected performance.

Stewardship, Policy, and Strategy

The Bank has structured its approach to the environment as an economic sector and has focused primarily on individual projects. The introduction of a major new area of attention required a concerted effort by dedicated units and staff. Most of the needed expertise was specialized and not part of the background of most Bank staff. The concept that environmental sustainability is an integral part of sustainable development has not been explicitly accepted at a strategic and policy level, although a great deal of importance has been given to specific aspects of the environmental agenda in terms of projects and safeguards. The long-term, systemic nature of environmental issues is difficult to reconcile with the short time horizons and sectoral structure of the Bank and its borrowers. The long-term, holistic vision of the Comprehensive Development Framework has yet to take hold (OED 1999).

The absence of integration is reflected in the formulation of Bank strategies. The Mission Statement includes "help[ing] people help them-

selves and their environment" as an adjunct to fighting poverty, but that part of the statement is rarely referred to in justifying country assistance strategies or budgetary allocations. Perhaps most surprising, and despite recommendations from the IDA deputies, the Environment Department, and many external agencies, the Bank did not pursue either analytically or operationally the links between environmental sustainability and poverty alleviation in the context of a sustainable development strategy (DFID 2000b).[1] These links are important, particularly for natural resource management in rural areas and for health in urban areas.

The links between environmental sustainability and poverty alleviation in the context of sustainable development are important, particularly for natural resource management in rural areas and for health in urban areas.

Neither the 1990 nor the 2000 WDR demonstrated the link between poverty and the environment, although environmental degradation is a major factor in hindering the creation of sustainable livelihoods for the poor. The link was demonstrated in the 1992 WDR, but an authoritative statement of corporate strategy linking poverty reduction with the environment has not been issued.

The poor often contribute to degradation when pushed to the margins in order to survive. More important, environmental degradation from various aspects of industrialization and growth have had very adverse effects on the poor: air and water pollution affect their health, soil erosion weakens their productive capacity, and land encroachment restricts their access to traditional productive assets. The recent "Voices of the Poor" exercise and consultations about environmental strategy have underscored the fact that the poor consider achieving sustainable livelihoods from environmental resources and improving the environmental aspects of quality of life to be very important. The U.K. development agency recently made this connection transparent and compelling in relation to achieving the International Development Targets for 2015 (DFID 2000a).

Strategy papers that have addressed environmental issues in different sectors show clear overlap—for example, *Water Resources Management*, a World Bank Policy Paper (World Bank 1994b) and *Cities in Transition: World Bank Urban and Local Government Strategy* (World Bank 2000h). *Fuel for Thought* (World Bank 1999c) was a unique attempt to draw the implications of a global environmental priority in terms of programmatic results. Its preparation was fraught with contention about how large a role environmental factors should play in other sectors. Other sector strategies have been less comprehensive in their treatment of the environment, and few have provided analyses of the linkages between environmental objectives and sector strategy goals. The treatment of environmental issues in private sector development activities has been particularly weak.

Even when the environment has been incorporated into a sector strategy, its importance has not necessarily been reflected in subsequent projects. This has to do with incentives and the sectoral orientation of the Bank's organizational structure. There have been few efforts to establish and build upon cross-sectoral links despite the obvious impacts that actions in most sectors have on the environment. The environmental strategy currently under preparation should be designed to remedy this situation.

The Comprehensive Development Framework (CDF), introduced in 1999, brought a holistic and long-term vision to the Bank's approach to development. The environment, together with cultural heritage, was included as one column in the CDF matrix. This, however, falls short of addressing the crosscutting nature of environmental considerations: the environment column does not intersect with other sectors in other columns. Similarly, the Poverty Reduction Strategy Papers (PRSPs) introduced in the context of the Highly Indebted Poor Country (HIPC) initiative treated the environment as a subsidiary sector. The Strategic Compact launched in 1996 did not include enhancement of environmental work.[2] These are signs that the Bank has not yet

succeeded in making the environment a core thematic priority that should be emphasized in all relevant aspects of Bank activities.

The Bank's program to support NEAPs and environmental ESW did put the environment on most policy radar screens, but the documents themselves have been of mixed quality and follow-up has not been consistent. The NEAPs have helped member countries gather information on the environment. The Bank has supported research on environmental indicators, such as genuine savings, and has estimated the costs of environmental degradation in terms of gross domestic product (GDP) (see table).[3] This substantial body of work, despite the striking environmental threats and damages recorded, has not had the expected impact on country policy dialogue and strategy work.

Integration of the environment into CASs has been limited, even when IDA deputies stressed such inclusion. Reviews of 37 CASs in 1999 and of 51 IDA CASs over the period 1992–99 show that treatment of environmental issues was only partially satisfactory. They were adequately addressed in only half the CASs. Moreover, the quality of the treatment did not improve over the period (Shyamsundar and Hamilton 2000; Ekbom and Bojo 1997). Senior management did not make inclusion of environmental issues into the CAS a review priority. Typically, the environment is mentioned as a sector rather than integrated into the development strategy, although there are best practices that take a broader approach (such as the CASs for Vietnam and Panama).[4]

Admittedly, CASs carry a large burden and tend to be short-term in focus, perhaps more so than needed for a strategic document. However, inclusion of a summary diagnosis of the environment in each CAS is essential to ensure that environmental considerations are adequately included in

Indicators of Environmental Degradation for Selected Countries

Country	Gross domestic savings (% of GDP)	Genuine domestic savings[a] (% of GDP)	Environmental degradation (% of GDP)	Net forest depletion (% of GDP)
Bangladesh	17.1	10	..	2.1
China	42.6	32.0	8[b]	0.4
Costa Rica	26.8	20.6	..	1.0
India	20.9	10.3	4.5 – 8[c]	1.6
Indonesia	24.1	5.9	..	1.2
Mali	10.1	5.2	..	0.0
Mexico	22.4	12.4	10	0.0
Morocco	14.7	9.7	..	0.0
Nigeria	11.8	-14.2	15[d]	1.8
Philippines	16.3	7.6	..	1.6
Poland	21.3	14.6	..	0.0
Romania	9.2	0.4	..	0.0
Yemen	2.4	-26.3	..	0.0

Note: Unless otherwise noted, all statistics are drawn from *The Little Green Data Book 2000* (World Bank 2000c) and the Environmental Economics and Indicators Unit (EEI), World Bank, 2000. The data in this book are for the years 1990, 1997, and 1998, or the most recent year for which data are available.

a. Genuine domestic savings is defined as being equal to net domestic savings plus education expenditure, minus energy depletion, mineral depletion, net forest depletion, and carbon dioxide damage.

b. World Bank 1997a. Air and water pollution damages were estimated to be at least $54 billion a year, or nearly 8 percent of GDP, in 1995.

c. Hommann and Brandon (1995) assessed annual environmental costs at 4.5 percent of GDP. Babu and Khanna (1997) estimated costs from air pollution, groundwater mining, deteriorating quality of aquifers, land degradation, and deforestation to be 5 percent of GDP. Annual economic costs of air pollution, contaminated water, soil degradation, and deforestation were estimated to be 8 percent of total GDP by Tata Energy Research Institute (1998).

d. Estimated from World Bank (1990a).

the overall development vision and strategy. If the environment is a corporate priority, it should be covered in the CAS. It may be that other objectives take priority in a particular country at a particular time, but if so, the CAS should note the rationale for that decision so that senior management and country officials are aware of their strategic choices. Lack of such treatment, and lack of insistence on it, is worrisome.

The quality of any country strategy or policy dialogue on the environment depends on the underlying information. Environmental indicators are not yet required in CASs, although useful ones are available, and a project funded by external donors has created a standard format and data set.[5] NEAPs are becoming dated, and there is no program to keep them current. Management has not requested any regular follow-up on NEAPs and has made no effort to incorporate lessons from their preparation into other environmental activities.

Environmental ESW is declining compared with the early 1990s, with respect to both numbers of studies and budgetary allocations.

Environmental ESW is declining compared with the early 1990s, with respect to both numbers of studies and budgetary allocations. A recent study by the Bank's Operations Policy and Strategy (OPS) group found that the Bank needs to be diligent in ensuring that environmental issues are analyzed for all countries, and that there is current environmental ESW where it is an important issue. For this purpose, adequate coverage in integrative ESW (such as the proposed Development Policy Review) would be an important first step.

The reluctance within the institution to be more proactive in making the case for the environment to clients cannot be wholly explained by country resistance or the recent emphasis on serving client objectives. Nurturing policy reform is a central Bank objective. The evidence of major negative impacts from environmental degradation (where the analysis has been done) argues for the Bank making a stronger case, based on the facts. Substantial progress has been made where committed staff and line managers in the Bank have stressed the issue and borrower countries have recognized the importance of the environment. China, Costa Rica, Mozambique, and Poland demonstrate that substantial progress can be made in gaining government commitment and improving the design and application of a country's own environmental policies. Many other countries, however, show significant deficiencies (such as Jordan, Mexico, and, until recently, Indonesia). Satisfying results have been obtained in both low- and middle-income countries. The priority the Bank gives to the environment in its own objectives, strategy, and programs is as important a signal to member countries as the extent of the financial assistance it offers.

Overall, the Bank has been partially successful in incorporating the environment into sector strategies, country strategies, and policy dialogues.[6] Even OED evaluations of country assistance programs have not regularly assessed the Bank's activities in relation to the environment. Recent reviews of 29 Country Assistance Evaluations (CAEs) by OED (16 IBRD countries and 13 IDA countries) found that only 9 examined the treatment of environmental issues fully. Ten gave some reference to environmental issues, and nine had no, or only marginal, references to the environment despite significant environmental challenges. Of course, CAEs should not be expected to cover everything. At the same time, since environmental sustainability is not just another theme or sector but one of the core objectives of the Bank (along with poverty reduction and broad-based growth), it would be appropriate for CAEs to review its relevance and coverage in the Bank's country programs, even if only to note that taking action on the environment may be a lower priority at a particular point in time.

Environmental Lending and Mainstreaming

Among the Bank's environmental projects and programs are many successful examples both of direct environmental project lending and of projects that have mainstreamed the environment into other operations, some of which have served

as models for other projects. The Loess Plateau Watershed Rehabilitation and Sustainable Coastal Resources Development projects in China, the Uttar Pradesh Sodic Lands Reclamation project in India, the Industrial Pollution project in Bulgaria, the Arid Lands Resource Management project in Kenya, district heating projects in Poland, and air pollution projects in Mexico are all good examples. Significant efforts have been made in countries such as Madagascar to implement major and vitally needed reforms in the treatment of the environment. These positive results demonstrate the potential of the Bank. They are a function of individual efforts in the borrowing country or the Bank, or, more often than not, both, according to interview data. In countries where domestic authorities have shown less interest in the environment, staff efforts have been less successful (for example, forest reform in Cameroon and Indonesia, industrial pollution in India, and water projects in Mexico).

The Bank's treatment of the environment as a sector rather than as a crosscutting priority is reflected in the difficulty of getting environmental projects into country programs and environmental components into sectoral projects. The current structure pits environmental units against other sector units in a competition for funds and slots in country lending programs. There are few incentives for mainstreaming into other sectors, and few independent Bank resources to draw on to mainstream environmental components into other projects unless an enlightened task manager is determined to do so. Some environmental staff offer projects on "loss-leader" terms, hoping to make up the difference from trust funds or other sources. This competitive structure has made it difficult for environmental units to form constructive partnerships for mainstreaming the environment.[7] The Asian Regions, in contrast, have stressed mainstreaming, encouraged the inclusion of environmental concerns into projects in other sectors, provided budget allocations, and, in some cases, joint appointments of staff.

A more important and persuasive objective of mainstreaming is to include environmental concerns in the design and implementation of projects across sectors (for example, transport strategies, energy sources, forestry development). This is more difficult to do and to monitor than specific projects and components, but it can have much more dramatic effects. So far, the Bank has not established guidelines, incentives, or monitoring procedures for this degree of mainstreaming, although many environmental supporters inside and outside the Bank have urged more efforts in this direction. Developing an effective methodology for mainstreaming in this manner should be a high priority for senior management.

A more important objective is to integrate environmental concerns in the design and implementation of projects across sectors.

To shed some light on the extent of mainstreaming in nonenvironmental projects, OED undertook a desk review of a random sample of 30 infrastructure projects. Six energy projects within the sample were found to have produced the positive environmental externalities of increased supply of environmentally superior energy sources or improved energy efficiency. In 20 of the remaining 24, modest efforts were made to mainstream the environment beyond the mitigation of the immediate negative impacts of the project.

Initiatives in mainstreaming the environment have included policy reform measures, strengthening environmental staff capacity, undertaking resource strategies and plans, and developing environmental guidelines and regulations. These activities were also noted in some country case studies. Partly as a result of the Bank's involvement in Morocco, for example, most ministries and agencies have an environmental unit in charge of mainstreaming the environment in the sector's policies and projects. Within the sample of infrastructure projects, a state highway project in Brazil helped establish environmental units within State Roads Departments to implement environmental guidelines prepared with technical assistance financed under the project. In Cyprus, the Southeast Coast Sewerage and Drainage project led to increases—albeit much lower than planned—in water

charges to help promote the rational use of water. It also supported innovative engineering to permit the re-use of treated wastewater for irrigation of "green" areas. The country case studies also revealed Bank-supported energy price reforms in India and Poland, and mainstreaming of natural resource conservation in infrastructure projects in Madagascar.

There needs to be real commitment from the borrower that is demonstrated by adequate budgets and the accountability of operations managers.

Despite these indications of progress, many difficulties have been faced in introducing mainstreaming activities. Sector reviews may be completed but their recommendations not followed up. Environmental capacity can be developed but then lost when environmental specialists move elsewhere. There needs to be real commitment from the borrower that is demonstrated by adequate budgets and the accountability of operations managers. This commitment is more easily found where the value of the environmental resources is large and obvious. The value of the resource can be tied to its economic potential, its effects on health, or its ecological value.

An issue faced by Bank staff is the reluctance of countries to borrow for environmental projects, even on IDA terms. Understandably, countries prefer to seek environmental project grants from bilateral agencies and to use relatively scarce IBRD/IDA funds for other priorities. This has led to environmental concerns dropping out of Bank strategies despite the need to integrate the environment into the overall strategy, even if not funded by the Bank (as happened, for example, in Bolivia and Mozambique). It also highlights the importance of building stronger partnerships with other agencies, which is expected to occur under the CDF initiative.

In one important case, the China Department expressed concern that China's graduation from IDA may lead to a drop in Bank environmental lending to a country that has made major efforts in that area. China requires beneficiaries to generate the funds to repay Bank or IDA loans. The public goods nature of many environmental investments means that full cost recovery may not be feasible, meaning that beneficiaries in China will not be able to repay on IBRD terms. The Bank is trying to find other sources of concessional finance from other donors to remedy this problem.[8] So far, financing has not proved to be a major difficulty, but it does illustrate the importance of finding ways to fund the public goods aspects of environmental projects in a consistent way.

Lending for adjustment operations and new forms of programmatic lending has been an increasing portion of the portfolio in recent years.[9] Adjustment lending is aimed at macro or sector policy reforms, while programmatic lending typically provides budget support for an approved sector or public expenditure program. In both cases, it has proved difficult to incorporate environmental concerns. The guidelines for adjustment lending recommend that staff identify environmental impacts. OD 8.60 states that:

> *Analysis of adjustment programs also considers the implications for the environment, since sound environmental management is a key objective of the Bank's assistance to countries. To help prepare appropriate assistance programs, Bank staff should review the environmental policies and practices in the country. The design of adjustment programs should take into account the findings and recommendations of such reviews and identify the linkages between the various reforms in the adjustment program and the environment.*

It goes on to suggest that environmental issues should normally be addressed by other policy actions. This is circular reasoning, since adjustment operations are the Bank's primary tool for supporting policy reform.

In practice, most adjustment loans do not address environmental issues.[10] Policy work by the Environment Department in 1995 identified extensive potential linkages and suggested a matrix with which to analyze the environmental impacts and make adjustment loans more environmentally sensitive (Munasinghe and Cruz

1995). This matrix was never applied. An ongoing review of adjustment lending by operations staff found that the proportion of adjustment lending that deals with environmental issues has varied widely over time, averaging about 23 percent in the 1990s. When the Bank has tried to incorporate environmental issues into adjustment lending the results have been mixed, despite significant efforts by staff (see, for example, Seymour and Dubash 2000). Mainstreaming the environment into programmatic and adjustment lending remains a major challenge.

The Bank's performance on direct environmental project lending compares well with its lending in general. Performance rating of individual environmental projects by OED and by QAG indicates that the projects have improved since the beginning of the decade and now do about as well as other projects on the indicators used. Recent evaluations, however, have raised concerns about institutional development projects being too complex and not designed to support institution-building processes long enough to have lasting effects (Margulis and Vetleseter 1999). Both QAG and OED have looked at the impacts of individual projects on the environment, which has led to positive recommendations in several cases to improve Bank performance.

Performance on mainstreaming the environment into other sectors and into adjustment lending is harder to measure than the results of direct environmental projects. The management decision to abandon the Environmental Information System (ENVIS) database in 1992 deprived staff and evaluators of an important tool for analyzing the extent and effects of mainstreaming. Interview data suggest that the Bank's sectoral orientation and lack of established environmental priorities have made it difficult for environmental staff to participate in projects in other sectors and incorporate more sensitivity to environmental issues. Although it is widely agreed by both management and staff that an integrated approach is highly desirable, lack of clear objectives, insufficient means of monitoring, and lack of internal incentives have pushed in the opposite direction. It is too soon to judge the results of recent efforts in some Regions to change this.

The modest extent of mainstreaming the environment into the Bank's overall program is disturbing. Having identified the pervasive aspects of environmental issues, recorded their importance to poverty alleviation, and confirmed that mainstreaming is essential to achieving its environmental objectives and commitments, in practice the Bank has done little institutionally to promote, monitor, or otherwise make mainstreaming happen. Anecdotally, there are excellent examples of mainstreaming, but there is no sense of whether those represent a trend or sufficient coverage. What is missing is evidence of a clear, operational, institutional commitment. Performance on project lending and mainstreaming has been partially satisfactory.[11]

What is missing is evidence of a clear, operational, institutional commitment.

Safeguards and Environmental Assessments

The Bank's performance on environmental safeguard policies remains contentious. Implementation has been mixed. OED and ESSD reviews of the EA process have found that the policies and objectives are generally sound, although there is room for improvement, refinement, and updating (World Bank 1993a, 1997c). These reviews have consistently found that EAs are often not completed soon enough in the project cycle to have much impact on project design. As a result, the EA process focuses much more on mitigation than on improving project design. Criteria for application of EA standards have not been consistently applied across Regions and countries. Delays in making the EAs available to the public have contributed to external criticism. Heavy reliance on external consultants has undercut EA effectiveness and has not contributed to building local capacity.

Compliance shortfalls highlighted in highly visible projects have cast doubt on the integrity of quality assurance processes. The Inspection Panel report on the Western China project highlighted many issues (World Bank 2000e). Guidelines for the application of policies have not been internalized by many task managers

and staff, partly because the provisions are not always clear. This is complicated by the diffusion of responsibility and accountability associated with matrix management. Line staff are put in the difficult position of trying to apply policies when they have the dual responsibilities of monitoring compliance with safeguards while also promoting the environment. For example, staff who depend on task managers for work assignments under the current work program system may also be required to monitor compliance with EA policies in projects of the same task manager, creating a conflict of interest. Key findings of this report with respect to the Bank's safeguard policies include the following.

There is insufficient guidance on how staff can implement the Bank's standards flexibly enough to harmonize with local rules and to strengthen local processes.

Clarifying the Policies. Recent Inspection Panel reports have highlighted a significant problem with the implementation of EA policy in the Bank due to perceived ambiguities in the scope, intent, and requirements of the policies among staff responsible for their implementation. According to Inspection Panel interviews, lack of clarity and sharp differences of interpretation are prevalent even among senior management (World Bank 2000e). Recent studies sponsored by OED (Boisson de Chazournes 2000; IUCN 2000) confirm the need to clarify certain aspects of EA policies (for example, the term "significant" is not defined in OP 4.01, but it is the distinction between A and B projects). Surveys of task managers confirm that lack of clarity and authoritative guidance play a role in the problems encountered with the application of EA policies. While the policies themselves may be appropriate and adequate, the language of both the policies and the standards by which they are to be applied need clarification and reliable interpretation to ensure consistent implementation.

Effects on Project Design and Supervision, and Ensuring Sustainability of Results. Most EA work occurs early in the project cycle and focuses on completing the EA and on project design modifications or mitigation activity to satisfy the recommendations of the EA. Attention to the process falls off thereafter. Supervision of environmental aspects of category A and particularly category B projects has been weak, and monitoring of action plan implementation spotty. This aggravates the systematic weakness in compliance monitoring and reporting. As a result, it is nearly impossible to verify the effectiveness of mitigation measures. Perhaps most important, the Bank's involvement in the EA process formally ends when the project is completed (that is, when disbursements are completed). There is no regular program for monitoring the implementation and sustainability of environmental measures during the subsequent life of the project.

Harmonizing Borrower/Bank Standards. Borrowers are now establishing their own environmental assessment regulations and implementation procedures, often with Bank assistance and encouragement. Many of these are still relatively new and they are not strong, but they have grown out of domestic processes and constitute important first steps in environmental policy development. However, national EA requirements are often different from those of the Bank. Concerns have been raised by borrowers that lack of effort to harmonize Bank and national policy standards leads to unnecessary friction and harms the overall cause of the environment.[12] There is insufficient guidance on how staff can implement the Bank's standards flexibly enough to harmonize with local rules and to strengthen local processes—and to do so without undermining the basic safeguard policy objectives. This is an important question that should be considered in revisions of the Bank's EA policies.[13]

Application to Adjustment and Programmatic Lending. Adjustment lending was excluded from the EA process when OD 4.01 was initially formulated. Several NGOs and internal studies (Munasinghe and Cruz 1995; Reed 1992, 1996) have highlighted important impacts that adjustment lending can have on the environment and have recommended methods for incorporating attention to environmental issues in adjustment operations. Since March 1999, sector

adjustment loans have been included among the projects subject to the EA process. ESSD is currently examining to what extent, and how, safeguard policies should be applied to adjustment lending and to other programmatic operations. It is important that satisfactory guidelines be developed for all Bank lending.

Internal Structure and Incentives. Since the creation in 1970 of the Office of the Environmental Adviser, the application of environmental mitigation measures has been viewed by a number of borrowers and task managers as an added cost and burden that has impeded rapid project execution. While EAs necessarily have a policing element, the culture and structure of the Bank have resulted in an unnecessarily adversarial relationship that has contributed to making the environment an enclave activity. The Bank's model for managing EAs has changed over time but has yet to find a fully satisfactory form.

Following the 1987 reorganization, the Environment Department had authority to review the environmental aspects of all projects, one of only three mandatory reviews external to the Region (the other two were legal and procurement). For a variety of reasons, authority for the EA process migrated to the Regions, while the Environment Department retained substantial independent resources to assist in and review decisions in the EA process.

This model was further modified following the creation of networks and the shift to country-based task budgeting that began in the 1996 reorganization. Both the central and the Regional environmental units saw their budget resources reduced and became more dependent on country directors and task managers for most of their funding and staff assignments. As a result, fewer resources were available for crosscutting and cross-border issues, and work became more fragmented as staff sought the security of specific assignments to support their "billable hours." This also placed Regional environmental staff in the conflict-of-interest situation of both policing the safeguards and trying to build constructive relations with colleagues in other sectors. Regional management was held responsible for delivering the lending program, but shared accountability for the implementation of safeguards with the networks. In turn, Regional management held major sway over network Anchors through the budget and influence in the sector board. The quality of the EA process deteriorated.

External criticism by NGOs and some donors of the Bank, combined with lack of clear managerial accountability, created a risk-averse mentality among both managers and staff. Some projects have been rejected because of potential environmental risks, and senior management attention to environmental issues has been directed mainly to high-profile, high-risk projects. Partly as a result of the issues raised in the recent Inspection Panel investigation of the proposed Western China Poverty Alleviation project, substantial additional resources (estimated to be about $6 million) have been allocated to strengthening the application of environmental safeguards and restoring more responsibility to the ESSD Vice-Presidency. Finding a functional model for balancing the roles of the center and the Regions in EA processes should be a high priority.

While strengthening safeguard processes is critical to the credibility of the Bank, care must be taken not to reinforce perverse incentives. Safeguard policies are increasingly seen as having primacy among the Bank's environmental objectives, rather than in their proper role as a backup assurance to high-quality environmental mainstreaming in project design. These safeguard activities, while essential to display the Bank's commitment to development "with a human face," should not distract attention from the priority to be given to mainstreaming the environment in strategy work and in all lending activities.

Overall, performance in the area of safeguards has been only partially satisfactory. Fundamental reform of implementation and accountability processes is critical. Management is aware of these shortcomings and is strengthening its approach to safeguards.

OED has expressed some reservations about recently proposed changes. Two issues in particular remain to be addressed. First, under the emerging safeguards compliance framework of decentralized responsibility with central oversight, the members of the Regional safeguards

compliance team will still depend on cross-support from project task managers for a substantial portion of their work program, and thus face a potential conflict of interest.

While global issues require global cooperation, there are also very important local reasons for concern about such issues.

Second, since Bank management monitors elapsed time between the Project Concept Document (PCD) and the project approval date as a key performance indicator, there is a built-in incentive to delay the formal issuance of a PCD. At the same time, since the PCD often represents the first time that a project can be reviewed by those not involved in the project, including the staff responsible for quality assurance on safeguards, safeguard issues may be identified too late in the project processing cycle to allow adequate consideration of more environmentally sound alternatives.

Global Concerns

The Bank, on the basis of its own analyses and on the recommendations of others, has promoted initiatives related to climate change at the country level and as part of the global agenda. Its focus on global concerns has been appropriate.[14] However, the emphasis on the global aspects of climate change, protecting forests and biodiversity, desertification, and the like has seemed to reflect the concerns of the developed countries and to understate the importance of these environmental concerns to local interests and welfare. The issues have become divisive in international forums, such as negotiation of conventions and meetings of the U.N. Commission on Sustainable Development. Opportunities for cooperation have been missed. *Fuel for Thought* (World Bank 1999c), the Bank's strategy for improving environmental performance in the energy sector, was caught in a similar debate between global and local approaches and was a weaker document as a result.

The Bank has prepared GEF projects to address biodiversity, ozone depletion, and international water issues. These projects have sometimes been isolated operations responding to the global mandate of GEF and not integrated into coherent national strategies.[15] In other cases they have contributed to larger environmental objectives and have helped the Bank's efforts to mainstream.[16] The Bank is beginning to recognize that while global issues require global cooperation, there are also very important local reasons for concern about such issues. It has made modest efforts to promote renewable energy, and much larger efforts to improve energy conservation in Eastern Europe and the states of the former Soviet Union, although the environmental benefits were primarily a result of improving economic efficiency rather than a primary focus of the operations.[17] In addition, the Bank has promoted the Prototype Carbon Fund, global forest initiatives, and assisted in work on the desertification convention. It has also, as noted earlier, been a major supporter and executing agency for the GEF.

The Bank's emphasis on global issues should not detract from addressing regional environmental issues, which are very important for member countries. Many environmental issues involve watersheds or ecosystems that span national borders. Cooperation among countries is needed, and the Bank has the potential to facilitate more cooperation than has been the case so far. Although the Bank has encouraged members to take these issues into account, it has not undertaken projects to address multicountry environmental issues. The Bank's strong country and sectoral orientation has impeded such activities.[18] The GEF has taken some initiatives on regional issues, and the Bank should learn from those experiences. Meanwhile, the Bank's Regions should find ways to do more regional environmental work.

Considering resource constraints, the Bank's efforts to address global issues in its own research and analysis have been satisfactory. It has also begun working with international agencies and NGOs on global issues. This approach has proven partially effective in promoting attention to global issues in its country dialogues but has not made much progress in gaining borrower support. The Bank's efforts have not yet been satisfactory in the areas of mitigating the local

impacts of climate change nor in addressing regional issues, but the Bank is beginning to expand its work in the former.

Internal Structure, Incentives, and Accountability

Understanding the Bank's organization and incentive structure is a prime factor in evaluating its performance in the areas discussed above. The initial push to expand environmental activities was given a highly sectoral flavor by the Bank's sector- and country-based structure and the weakness of the Network Councils. There were few incentives to build crosscutting themes into holistic approaches at either a strategic or operational level. The joint emphasis on safeguards and environment projects and the continuing priority to advance projects have reinforced the compartmentalization of the environment and have perpetuated the adversarial relationship between environmental interests and those who wanted to speed up project preparation and simplify procedures. So long as mainstreaming the environment was not clearly stated and pursued as a core institutional objective and staff were not recognized for their accomplishments in this area, there were few material incentives to move in that direction.

The expansion of the environmental units, however, brought into the Bank a number of highly motivated and innovative staff committed to the environment, and they received encouragement within the Bank's environmental community and from some managers. When the Environment Department had substantial independent resources for environmental activities, there was a rapid expansion of research, analysis, and lending. The subsequent efforts to decentralize responsibility and budgets to the Regions and country units eroded the capacity of the Environment Department to integrate thematic environmental concerns more broadly into sector programs or to monitor implementation of policies. Increased necessity to compete for resources further reduced the environment to a low-priority sector. These changes diminished the Bank's capacity both to mainstream the environment into country programs and to implement its safeguard policies effectively. The environment has too often been viewed as a luxury that can wait rather than as a central part of the Bank's development objectives.[19]

With increasingly constrained budgets, task managers in other sectors have often viewed environmental inputs as an added cost and have chosen not to engage environmental staff unless absolutely necessary. This has made mainstreaming harder and has led to underfunding of some safeguard activities.[20] Environmental staff have exercised a great deal of ingenuity to raise funds from other sources to support their activities. Although external funding sources have been valuable in the short term, they have their costs. Considerable staff time is spent raising funds rather than working directly on tasks, and conditions on this funding may shift the direction of the activities to the priorities of the donors.[21] The reliance on external funding has tended to reinforce the separation of the environment from mainline Bank activities and access to regular Bank funds, creating more division rather than integration.[22]

The Bank as an institution and in the statements of its past four presidents has made strong commitments to supporting the environment. This has been reflected in the creation and allocation of resources to the Environment Department, expanded environmental activities, a number of major external partnerships, and the strengthening of safeguard processes. These actions, however, have not been accompanied by incentives or direct action by management to ensure that mainstreaming takes place. Senior management reviews of CASs have not focused on environmental issues unless there was a reputational risk issue. Responsibility for other environmental aspects was delegated to the Environment Department, which was outside the operational line responsible for country strategies, projects, and other activities, and for which it had insufficient independent resources. The initial instructions for the PRSPs did not mention the environment. No system has been established to define objectives for mainstreaming or to monitor results. Without guidelines and assignment of responsibility, no one is held accountable for mainstreaming.

The goals of the series of Bank reorganizations over the past 13 years have included improving cooperation across sectors and moving toward a more holistic approach. Unfortunately, the successive reorganizations have tended to reinforce the Bank's tendencies toward sector fragmentation. With some exceptions, the other networks are not moving to mainstream the environment in their strategies or programs.

Without guidelines and assignment of responsibility, no one is held accountable for mainstreaming.

The allocation of responsibility and accountability for the environment is a major factor in this. Senior managers have not been held accountable for incorporating environmental concerns into the activities of their units, either in the Regions or in the networks. This problem has been recognized, and a new task force has been formed to clarify accountability in the matrix. The results have yet to emerge. In the case of safeguards, Regional responsibility for approval of EAs has not been accompanied by adequate accountability. The Regional vice presidents have not been accountable for the EA process, which was located in the Regional environmental units. These were then faced with conflicting objectives of enforcing the policies while contributing to Regional lending targets. ESSD and senior management are putting in place a new system that is intended to produce clearer accountability and better results. It should be monitored closely.

Given the many other pressures on staff and managers, and the ambivalence of many governments regarding the role of the environment in development, it is understandable that the environment has gotten a low priority. The current system does not provide the appropriate accountability structure to meet the Bank's commitments to incorporate environmental sustainability into its core objectives and to mainstream the environment into its operations. It is not that the individuals who operate within the system do not work hard to try to meet the objectives on which they are judged.[23] Rather, the time has come to examine how the Bank should align its environmental goals and priorities with clear incentives, lines of accountability, and authority to achieve results. Management has a responsibility to define its priorities and objectives in a manner that can be implemented with available resources, even in the face of pressure to overload its mandate. In the case of the environment, which is commonly seen as central to poverty alleviation and growth, this means better integration into a coherent strategy as well as better monitoring.

The Bank's organizational and incentive structure has supported the expansion of Bank direct lending for the environment to about 6 percent of the overall portfolio. (If mainstreamed environmental components are included, the share may be about 10 percent.) Environmental lending made up nearly 3 percent of new commitments in fiscal 1999. The recent budget cuts will test whether this level can be maintained. However, the Bank's structure and incentives reinforce the treatment of the environment as a sector, and the Bank's accountability structure has not been able to encourage the mainstreaming of the environment in a satisfactory manner or to convince managers and staff to make it a cross-cutting theme. Unless and until that happens and the environment becomes part of the Bank's core objectives and a normal part of doing quality analysis, projects, and strategies, the tension between the Bank and its stakeholders that has characterized the past decade will continue, and probably intensify.

5 Recommendations

By and large, the findings of this evaluation are not new and are similar to what other donors have found when they evaluated their environmental programs (see Annex A). Many of the findings are based on internal and external studies done over the past decade. The need to make the environment a strategic priority was recognized by the Bank with the creation of the Environment Department and was reaffirmed at the Rio conference and in the 1992 WDR. Various presidential statements and individual initiatives also reflect an awareness of the importance of the environment. NEAPs were to be integrated into country strategies, EAs were supposed to be broadened to sectoral and Regional bases, and the GEF was supposed to complement Bank programs, not become a substitute. Why didn't this happen? The preponderance of evidence suggests the following: (1) The Bank did not mount a concerted effort to integrate doing positive environmental good as a critical priority in its core objectives. The cross-sectoral and thematic aspects of the environment received little emphasis, and, most disconcertingly, the fundamental link between environmental sustainability and poverty alleviation was not pursued. (2) The Bank's safeguard policies to prevent or mitigate environmental harm from its projects, while sound in conception, were not accompanied by clear standards and consistently effective implementation. This has resulted in increased reputational risks and diversion of attention to damage control. (3) The Bank's efforts in dealing with global environmental issues have been hampered by their early formulation as goals external to member countries and by the strong country orientation of the Bank.

In all of these areas, the structure of incentives, priorities, and direct processes of accountability from senior management down the line has not been supportive of strategic inclusion of the environment, adequate monitoring and evaluation, or positive recognition of activities and staff. While it may be argued that Bank management attitudes reflect the ambivalence of its collective membership on this issue, that ignores the leadership role attributed to and accepted by the Bank for the promotion of equitable and sustainable development. Unless the Bank expresses the priority it gives to the environment and demonstrates how to implement this priority in its programs, it is difficult to expect its borrowers

to do likewise. Simply recommending more or better NEAPs, allocating more staff or resources to the environment, or doing better EAs will have no more impact than in the past. The recent emphasis on being responsive to clients makes exercising the Bank's leadership and role-modeling functions even more critical.

The Environment Strategy Paper provides a unique opportunity to secure a realistic and workable consensus among the membership about the future role of the Bank on the environment.

Our findings highlight a number of specific strengths and weaknesses of the Bank's performance on the environment. Many of the weaknesses can be—and are being—addressed. The critical issues that must be addressed by the Bank's environmental strategy and its senior management stem from the three major shortcomings identified above. The agenda presented below is a medium-term set of corporate objectives. It calls for judicious sequencing and gradual implementation in line with the resources actually allocated to enhance the implementation of this corporate priority. The forthcoming Environment Strategy Paper provides a unique opportunity to secure a realistic and workable consensus among the membership about the future role of the Bank on the environment.

Recommendation 1: **In pursuit of holistic, long-term development and the Millennium Development Goals, the Bank should build on its comparative advantage and analytical capacity to demonstrate the critical role of the environment in sustainable development and poverty reduction. It should incorporate environmental objectives into its core strategy and its operations. In particular, the Bank should:**

- Reform the structure of its management, staff, and budget incentives to give added emphasis to achieving environmental objectives.
- Integrate environmental sustainability into country and sector strategies.[1]
- Make the environment a central feature of policy dialogue with core ministries, giving particular attention to the links between the environment, poverty reduction, and sustainable livelihoods.
- Ensure that the environment is adequately covered in due diligence ESW (such as the proposed Development Policy Reviews). When the CAS indicates a need for more in-depth analysis of environmental issues, environmental ESW should be carried out in a participatory manner, taking full account of the work carried out by partners (e.g., national strategies for sustainable development proposed by DFID).
- Mainstream environmental concerns into its research and operations. Adequate guidance, standards, and monitoring should be put in place so that staff have the tools and incentives to implement the environmental strategy.
- Strengthen monitoring and evaluation of progress on the environment in CASs and Sector Strategy Papers. To this end, it should expand the use of environmental indicators in country analysis, particularly indicators of environmental degradation in terms of GDP.
- Enhance its efforts at capacity building in member countries by strengthening institutions, policies, and regulatory enforcement.

Recommendation 2: **The Bank should review its environmental safeguard oversight system and processes to strengthen accountability for compliance. In parallel, the policy framework should be modernized and adapted to the changing practices and instruments being used by the Bank and take account of recent experience. In particular, the Bank should:**

- Ensure that safeguard policies and standards for their implementation are clear and are fully understood by managers and staff.
- Define policies and practices for treating environmental issues in adjustment and programmatic lending not currently covered by EA policy.
- Provide adequate and independent funding for oversight of safeguard processes and shield compliance review processes and staff from conflicts of interest.

- Allocate accountability and responsibility for implementation of the safeguard policies to the relevant line managers and empower the central environment unit to intervene where compliance problems are identified.[2]
- Establish a transparent adjudication process to resolve internal differences and avoid muddying responsibility and accountability.
- Help build the capacities of borrower countries to formulate and implement EA policies and manage environmental resources and risks.

Recommendation 3: **The Bank should help implement the global environmental agenda by concentrating on global issues that involve local and national benefits. In particular, the Bank should:**

- Identify environmental actions that achieve national and local benefits while addressing critical issues of global concern.
- Help countries prepare for the impacts of global environmental degradation, such as global warming, and support transitions to renewable energy sources and end-use efficiency.
- Give adequate attention to regional (transboundary) environmental issues in its analytic and program work, including cross-boundary cooperation.
- Enhance its role as a global leader in the environment through public statements, by serving as a role model through its own actions, and by promoting greater understanding of the poverty-environment-development nexus.
- Use its convening power and partnership programs to increase attention to environmental issues of common concern, promote coordination among donors, and empower all stakeholders to achieve common objectives.

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ANNEX A: DONOR EVALUATIONS

Four donors have recently evaluated their environmental aid programs: Norway, 1995; Denmark, 1996; Finland, 1999; and the United Kingdom, 1999 (Denmark, Ministry of Foreign Affairs 1996; Finland, Ministry for Foreign Affairs 1999a–f; FNI and ECON 1995; Flint and others 1999). These major studies of one to several volumes have come to surprisingly similar conclusions that are consistent with those of this review. Although their programs are generally smaller than the Bank's, these evaluations are important because many Bank countries have expressed a preference for bilateral (grant) support for environmental projects.

While the emphasis and terms of expression differ across reports, the themes expressed here are common to all of the studies. They all note that environment has been made a high priority in their aid programs and express confidence in the formulation and emphasis of their policy statements. They also express some satisfaction that their programs have had positive impacts and that progress has been made. Beyond that, the picture is not good.

A significant gap between rhetoric and reality is a major theme in all reports, and the more recent ones indicate a falling-off in performance in the late 1990s. Effective priorities seem to have shifted away from the environment.

The reports find that translation of environmental goals into action is weak for several reasons:

- Country-level strategies are nonexistent or inadequate (usually from both the donor and the country points of view, though the availability of NEAPs was welcomed).
- There is a lack of clear targets and guidelines for staff to follow.
- Not enough skilled staff are available, and current staff are stretched too thin and do not have the necessary authority.
- There is not enough integration or mainstreaming of environmental issues into other projects.
- There is a paucity of monitorable environmental indicators.
- Application of EAs is deficient and, where applied, they are often too late in the project cycle to do more than mitigate risk.

The reports also focus on the lack of adequate monitoring, lack of evaluation of environmental projects, and the absence of environmental concerns in other projects. Internal feedback systems were deemed inadequate. Management reviews rarely addressed environmental issues, so there was no effective accountability for achieving the environmental principles and goals that had been articulated.

The recommendations suggested improvements in the areas noted above. Particular attention was given to getting better strategies, improving implementation across the board, getting better indicators, and improving monitoring.

Although the Bank has rightly been under pressure from its donors to improve its performance, it is interesting to note that the shortfalls identified for the Bank also occur in many of the donors' programs. This suggests that promoting environmental sustainability is difficult and is not internalized in any of these institutions to the extent that it ought to be. There may be good reasons for a cooperative effort to improve performance. Coordinated efforts on developing environmental strategies, environmental indicators, and monitoring and

evaluation procedures would be a good place to begin. This should be supplemented by effective in-country coordination of environmental programs and their evaluation, rather than independent implementation and evaluation of each donor's program.

ANNEX B: REPORT OF THE ADVISORY PANEL

Summary

An external Advisory Panel convened by the World Bank's Operations Evaluation Department (OED) wishes to convey six recommendations to the OED as the Panel's response to the Review of the World Bank's Performance on the Environment. The Panel requests that the OED transmit these recommendations to the Bank's senior management and Executive Board.

1. The World Bank's senior leadership must reassert environmental sustainability as a core element of the World Bank's mandate.
2. The World Bank's senior leadership must establish staff accountability for compliance with the Bank's environmental policies, and to this end, should re-centralize clearance authority on every project with environmental implications.
3. The World Bank must dramatically improve its performance in mainstreaming environmental considerations into nonenvironment lending and policy advice, which will require a significant realignment of staff incentives and more transparent accountability for mainstreaming.
4. The World Bank must do a better job of identifying and exploiting synergies among environmental protection, economic development, and poverty reduction objectives within a sustainable-livelihoods framework.
5. The World Bank must harmonize its environment strategy across the World Bank Group to ensure greater consistency and accountability, and to facilitate appropriate integration into private sector–oriented finance and policy advice.
6. The World Bank has an important global leadership role to play on environmental matters through its convening power, and a responsibility to assist borrowers to comply with international commitments and norms.

Background on the Panel's mandate and activities, and further detail on the six recommendations, are provided below.

Background

In March 2000, the World Bank's Operations Evaluation Department (OED) recruited five individuals—Alicia Bárcena, Ashok Khosla, David McDowell, Frances Seymour, and Bjorn Stigson—to serve as an independent Advisory Panel for its "Review of the World Bank's Performance in Promoting Environmental Sustainability in Development." The review had been initiated the previous year. OED's stated objectives for convening the Panel were to:

- Bring to bear diverse perspectives in the conduct of OED's evaluation
- Serve as a sounding board for the findings of the evaluation as they emerge
- Add authority and credibility to the findings.

It was understood that each Panel member would represent his or her individual views and not those of the organization with which each is affiliated. Panel members were expected not to disclose the findings of the evaluation until after they had been presented to the World Bank's Board of Executive Directors. OED shared with the Panel draft background documents that were either commissioned for or related to the review. Two meetings of the Panel were convened, one in May and one in October. At the October meeting, OED requested that the Panel prepare written comments on the review and, if possible, submit a consensus report.

This brief report is designed to accompany the OED "Review of the World Bank's Performance on the Environment," and to capture the principal consensus views of the Advisory Panel. The Panel's comments are in response to the draft of the main report dated December 15, 2000, and the draft of the technical report dated November 27, 2000. Individual Panel members have communicated comments of an editorial nature to OED separately. The Panel's mandate did not extend to commenting on the World Bank environment strategy currently under preparation elsewhere in the Bank in parallel with the OED review, although the two processes are coordinated.

This report conveys six principal recommendations to the World Bank's senior management and Executive Board as the Panel's contribution to deliberations on the implications of OED's review. These recommendations are based on the documentation provided by OED, the discussions we have had at our meetings and electronically, as well as on Panel members' own collective knowledge and experience of the World Bank's performance on the environment. The remainder of this report provides supporting detail on the six recommendations. We seek to clarify those findings and recommendations of the OED report that we agree with, those findings and recommendations that we disagree with, and issues that we believe should have been addressed, but were not.

Recommendations

1. The World Bank's senior leadership must reassert environmental sustainability as a core element of the World Bank's mandate.

Members of the Panel agree with OED's finding that the World Bank "has not succeeded in making the environment a core strategic priority," and are alarmed by evidence that the Bank has in recent years begun losing ground in this regard. The declining prominence of environmental sustainability in the very instruments used by the Bank to signal its strategic priorities—the Country Assistance Strategy, economic and sector work, and the Comprehensive Development Framework—indicates the need for the Bank's senior leadership to reassert the centrality of the environment to the Bank's core business. Moreover, the absence of environmental concerns in Poverty Reduction Strategy Papers and in the recent *World Development Report* indicates a failure to make the conceptual link between environmental sustainability and the Bank's central mission of poverty reduction. The recent decline in new lending for environmental projects, and the finding that competition for budgetary resources has "further reduced the environment to a low-priority sector," do not bode well for improvement in the near future without a swift and dramatic change in course.

The Panel is thus concerned that the congratulatory tone of some of the introductory and summary text of the OED report is inconsistent with these more disturbing findings detailed in the body of the report. The Panel concurs that the Bank has indeed achieved much in the period under review, and that there are many specific project, country-level, and global initiatives of which the Bank can be proud. However, we believe that the appropriate benchmarks for measuring performance should be the Bank's own stated commitments, and the degree to which the Bank's response has been commensurate with the urgency and importance of the challenge. By both of these measures, and particularly in light of the failure to mainstream and the evidence of recent backsliding, the Bank's performance has clearly been unsatisfactory. Improved performance will require significant attention and leadership from the highest levels of the institution.

2. The World Bank's senior leadership must establish staff accountability for compliance with the Bank's environmental policies and, to this end, should centralize clearance authority on every project with environmental implications.

The Panel agrees with OED's finding that a great deal of accountability for compliance with environmental safeguard policies seems to have been lost during the decentralization of Bank structure following the 1996 reorganization. The Panel is particularly concerned by the reported conflict of interest now faced by environment staff in the Regions in the wake of decentralization. The Panel supports the OED recom-

mendation that "the central environmental unit should have adequate resources and authority to advise and intervene on issues where differences of opinion arise." The Panel would go further and recommend that definitive clearance authority on every project with environmental implications should be centralized to ensure clarity and consistency in the application of safeguard policies.

While the Panel believes that the first order of business is to ensure accountability for safeguard policies already in place, we also agree with OED's recommendation that the safeguard framework be reviewed to promote clarity, consistency, and comprehensiveness. In particular, there is a need to make explicit the articulation of social and environmental issues in the environmental classification and assessment process. In addition, the policy framework should be updated to incorporate new insights on how to "do good," such as those related to dams emerging from the World Commission on Dams process.

3. The World Bank must dramatically improve its performance in mainstreaming environmental considerations into nonenvironment lending and policy advice, which will require a significant realignment of staff incentives, and more transparent accountability for mainstreaming.

Members of the Panel agree with OED's finding that the mainstreaming agenda, that is, integration of environmental objectives into the Bank's regular, nonenvironment lending and non-lending activities (including concessional activities supported by trust funds), has been relatively neglected compared with the attention the Bank has given to environment sector projects and safeguard policies. (Indeed, OED's own initial approach to this review reflected a similar misplaced emphasis. Too much analytical effort was focused on the performance of environmental projects and processes, and not enough on the Bank's performance in dealing with the environmental implications of non-environmental projects—especially large infrastructure projects—and processes such as country and sector strategies.)

At the country level, OED finds "little indication . . . that environmental concerns have been integrated in the Bank's economic policy dialogue" with borrower governments, and that only about half of Country Assistance Strategies address environmental issues. (Ironically, OED finds that OED itself has not systematically monitored effectiveness of efforts to promote environmental sustainability in Country Assistance Evaluations.) And while an increasing proportion of the Bank's portfolio is now in program lending, OED reports that most adjustment loans do not address environmental issues, and that treatment of environmental issues in adjustment lending has declined in recent years. Despite some examples of best practice, available evidence indicates that the Bank's performance overall in mainstreaming at the country level has been unsatisfactory.

It is unfortunate that the OED review is equivocal in its assessment of mainstreaming of environmental concerns into other sectors, citing lack of clear objectives and insufficient means of monitoring. In the view of Panel members, the Bank's performance in this regard is critical, as (in OED's words) the "benefits of stand-alone environmental projects can be more than offset by the negative environmental impacts of lending in other sectors that ignores environmental benefits." Nevertheless, the OED report provides sufficient evidence to conclude that potential tools that would support integration of environmental concerns into other sectors—such as economic and sector work, and Regional and sectoral environmental assessments—are not being used, and that budgetary and staff incentives are pulling in the wrong direction.

Members of the Panel agree with OED's finding that "the current system does not provide the appropriate accountability structure to meet the Bank's commitments to incorporate environmental sustainability into its core objectives and to mainstream the environment in its operations." Indeed, task team leaders surveyed by OED expressed the view that that there are currently no positive incentives for mainstreaming, and that lack of interest on the part of senior management is a significant constraint to main-

streaming environmental concerns into non-environment activities. The OED finding that many of the Bank's more positive environmental initiatives "have tended to be a function of the efforts of individual staff" is consistent with the observations of Panel members.

The Panel thus strongly agrees with the OED recommendation that the Bank's structure of incentives, allocation of resources, and management accountability be reformed to give greater emphasis to achieving environmental objectives, and in particular, that line managers take responsibility for environmental sustainability throughout their operations. There currently appears to be a (mis)perception among many in the Bank that environment staff and units are responsible for ensuring the implementation of the mainstreaming agenda, although they are clearly not in a position to do so. Senior Bank officials thus need to hold line managers accountable for integrating environmental considerations into all of the Bank's lending and policy advice, and to align incentives with this objective as a matter of urgency.

4. The World Bank must do a better job of identifying and exploiting synergies among environmental protection, economic development, and poverty reduction objectives within a sustainable livelihoods framework.

A particular area of concern to the Panel is the Bank's failure (until recently) to link environmental sustainability and poverty reduction objectives. OED reports that there has been "surprisingly little" analytic work on the links between poverty and environmental degradation. While the Bank's environment staff have attempted to establish links with other thematic areas, OED finds that this outreach has not been reciprocated.

While the Panel is supportive of the attempt to link the new environment strategy with poverty reduction objectives, we are concerned that such linkages need to be broadly construed in the context of long-term economic development objectives and a sustainable-livelihoods framework. Otherwise, there is a danger that the Bank's environment-related work will be constrained to local interventions with a short time horizon at the expense of attention to more systemic, long-term threats to economic development and sustainable livelihoods posed by environmental degradation. For example, the Panel believes that there is room for increased Bank emphasis on the synergies among increased efficiency and productivity in the use of natural resources, economic growth, and poverty reduction.

5. The World Bank must harmonize its environment strategy across the World Bank Group to ensure greater consistency and accountability, and to facilitate appropriate integration into private sector–oriented finance and policy advice.

Over the past decade, the World Bank has emphasized private sector development as a central theme of its lending and policy advice, and the private sector arms of the World Bank Group—the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA)—have grown significantly. Moreover, recent restructuring has merged World Bank and IFC management units in key sectors. It is thus extremely unfortunate that the review of the Bank's environmental performance, and the parallel environment strategy process, are limited to the IBRD and IDA. At its first meeting in June 2000, the Advisory Panel strongly urged the Bank to integrate the Bank's private sector entities into the review and strategy process, but this was not done.

Even within the more narrow mandate of the review of IBRD and IDA activities, the OED review fails to provide an adequate treatment of the environmental performance of the Bank's private sector development activities, including lending, guarantees, and policy advice. Given that Bank support for privatization and guarantees of private provision of infrastructure are often controversial on environmental grounds, this is a significant omission. In addition, the OED review does not treat the potential positive role of the Bank in promoting opportunities to integrate environmental concerns into the objectives of private sector development. For example, the potential of strict national environmental standards to promote innovation and eco-efficiency deserves increased attention.

6. The World Bank has an important global leadership role to play on environmental matters through its convening power, and responsibility to assist borrowers to comply with international commitments and norms.

The Panel supports OED's recommendation that the Bank should revise its approach to global issues, concentrating on capturing the local and national benefits from addressing issues that are of global concern. In addition, the Panel supports the recommendation that transboundary environmental issues should receive more attention in the Bank's analytic and program work, as this is an area with significant unexploited potential and need.

However, the Panel believes that there is more to be said about the selective use of the Bank's global convening power to promote international consensus-building on environmental challenges, the role of the Bank in directly assisting borrowers to implement the commitments and norms that emerge from such processes, and indirect assistance through cooperation with other international organizations. It is unfortunate that the OED review did not include an evaluation of the many international partnerships and global processes that the Bank has entered into in the environmental realm.

These partnerships have ranged from its Alliance with the World Wildlife Fund and convening of corporate CEOs in the forestry sector, to its creation (with the World Conservation Union) and subsequent arm's-length support for the World Commission on Dams (and as-yet-unknown role in promoting the recommendations of the latter's recent report). Each of these presents a very different model of engagement, and some have been controversial with various stakeholder groups. Members of the Panel believe that Bank resources should be used to support global public policy–making and implementation with respect to the environment, but suspect that there are likely many lessons learned regarding how this is best done that are left uncovered by the OED review.

Concluding Words

The members of the Panel wish to thank the World Bank for providing us with the opportunity to participate in the review process, and extend our gratitude to colleagues in OED who facilitated our meetings and responses to our requests. We hope that our input is received in the constructive spirit in which it is offered.

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ANNEX C: REPORT FROM THE COMMITTEE ON DEVELOPMENT EFFECTIVENESS

1. The Committee met on May 2 and May 23, 2001 to discuss the papers *OED: Review of the Bank's Performance on the Environment* (CODE2001-0029) and *ENV: Making Sustainable Commitments: An Environment Strategy for the World Bank Discussion Draft* (CODE2001-0041), prior to its being submitted for Board review on July 12, 2001. Following the May 2nd CODE meeting, Management prepared and circulated a Q&A (CODE2001-0051). The Committee commended both OED and Management for a well-coordinated process. The Committee welcomed the Strategy's poverty-focused agenda, emphasizing environmental health, sustainable livelihoods, and vulnerability and environmental change. The Committee also supported Management's two-pronged approach focusing on strengthening the incentive and accountability structure and on the supervision of the environmental aspects of projects.
2. The Committee welcomed the OED review, which rated the Bank's performance on the environment as "partially satisfactory." The Committee supported the OED recommendations and was pleased to hear that Management had found the review useful in guiding the development of the Strategy. Although not all members supported all the elements of the strategy, the Committee believed there was enough common ground to support its going to the Board.
3. The Committee raised issues on linkages between the environment and poverty reduction, tradeoffs between global and local issues, and balancing advocacy, minimum standards, and country ownership. It also discussed safeguards and institutional incentives, and how to mainstream environmental objectives into the Bank's work, including adjustment lending policy and harmonization across Bank instruments.
4. Following are a number of issues that the Committee feels warrant the particular attention of Executive Directors at the Board discussion of the strategy on July 12, 2001.
   - *Policy Advocacy, Country Ownership and Capacity.* The Committee noted that balancing policy, setting minimum standards and managing reputational risks for the Bank at the country level was a key challenge. Several members believed that the strategy was weighted more toward policy advocacy and imposed environmental standards and minimizing the Bank's reputational risk than toward "doing good" and addressing client concerns about costs, delays, and implementation capacity. Others cautioned that weak country capacity should not result in lowering Bank standards and underlined that the proposed approach should strike the right balance between the costs of compliance and the Bank's reputational risk. Members stressed the importance of country ownership and institutional capacity building and said that the focus, in the long run, should be to integrate safeguards into country systems. They called on flexibility in applying the policy and emphasized that the localization of global public goods was critical to client buy-in. *Executive Directors may wish to discuss whether they are satisfied with the balance and treatment of "country ownership," "capacity building," and "reputational risk" in the revised draft.*
   - *Safeguards and Institutional Incentives.* The Committee believed that more effort is required to strengthen the accountabil-

ity and incentive structure to mainstream environment into the Bank's work, including the need to clarify the working modalities between the central review function and Regional responsibilities for implementation and monitoring. Management agreed to provide a matrix on accountability and incentives. *Executive Directors may wish to discuss the proposed measures to clarify and strengthen incentives and accountability for safeguard compliance in the Bank.*

- *Resources/Budget.* Some members believed that the strategy would increase the Bank's administrative costs and supported the proposed five-year resource envelope. Other members questioned the need for incremental funding and requested to see a program of activities within the current resource envelope. *Executive Directors may wish to discuss the case for incremental resources and adequacy of resources for implementation.*

Following are the Committee's discussion of these and other issues in greater detail.

5. *Linkages between Environment and Poverty Reduction*. The Committee noted that while the linkages between environment and sustainable livelihoods in the long term were clear, the links between Regional and global commons and poverty reduction were less direct. Members called for the strategy to explicitly acknowledge tradeoffs that could exist in the short term between realizing the goals of poverty reduction and environmental sustainability. Members also noted that while the Bank's focus was on poverty reduction, many of the proposed actions would require moving beyond a poverty focus, to a broader focus on social sustainability. Management agreed that poverty reduction and sustainable development were not mutually exclusive, and presented questions of tradeoffs that must be examined carefully.
6. *Implementation and Mainstreaming of Environment Objectives.* The Committee stressed that implementation will be the real test of the strategy. Members noted the need for sharper definition of benchmarks for environmental monitoring and for more ambitious targets for mainstreaming environment into CASs and PRSPs. Other specific implementation issues raised included the need to: rationalize the role of different instruments to take into account clients' capacity to benefit fully from them; more clarification on the roles of the Bank and its key partners in implementing the strategy, including how the GEF protocol would be mainstreamed into the Bank's work; and more guidance on interim measures to be taken in circumstances where the strategy could not be immediately applied. Management noted that performance indicators would be tested in the first year prior to wider adoption and that it would revisit the proposed "tool kit" of instruments. Issues of mainstreaming the GEF protocol into the Bank's work would be taken up by the GEF Council following Board review of the SSP.
7. *Treatment of Environment Issues in Programmatic/Adjustment Lending.* The Committee noted the need for more clarity on how environmental issues will be incorporated into Bank instruments, including adjustment lending and PRSCs. Management proposed that this issue be taken up when the Committee discusses OP 8.60 Adjustment Lending Policy and also informed the Committee that it was accelerating its clarification of policies and integrating all safeguards into a single risk management system.
8. *A World Bank Strategy*. The Committee noted that the SSP approach should move beyond a focus on governments and projects to include the role of the private sector in implementing the strategy and asked for more information on implications of the strategy for MIGA and for IFC. Management from IFC and MIGA informed the Committee that they supported the strategy and that their activities were in alignment with its objectives.
9. *Conclusions.* Management agreed to revise the draft report focusing on the executive summary to take into account comments from the Committee, including with regard to: revising the accountability and incentive matrix; clarifying the role of the regions; balancing the

costs and the benefits of compliance; rationalization of the use of current and new instruments; and the development of monitorable indicators. Management will prepare a Management Action Record (MAR) to be submitted at the time the OED report is circulated to the Board. Following the Board discussion the Strategy will be made available to the public.

Pieter Stek
Chairman

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ANNEX D: WORLD BANK MANAGEMENT'S RESPONSE TO OED'S ENVIRONMENT REVIEW AND RECOMMENDATIONS

Several "building blocks" contributed to the preparation of the environment strategy, including Regional environment strategies, environment strategy background papers, and an extensive strategy consultation process. One of the key building blocks was OED's environment review, which assessed the Bank's performance in supporting environmental sustainability.

The OED review found that the Bank had made substantial improvements in its environmental performance, but large challenges remained. It rated the Bank's performance as satisfactory in addressing global environmental challenges; and partially satisfactory in (a) incorporating the environment into sector strategies, country strategies, and policy dialogues, (b) mainstreaming into the Bank's overall operations, and (c) implementing safeguard policies.

In defining a course of action for the longer term and setting specific measures to adjust Bank actions, tools, and institutional incentives for the next five years, the strategy has taken into account the findings and recommendations of the OED review. The management action response matrix below summarizes OED's main recommendations, and outlines the elements of the strategy and implementation plan that directly respond to these recommendations.

Major OED recommendations	*Response*
Recommendation 1: ***In pursuit of holistic, long-term development and the Millennium Development Goals, the Bank should build on its comparative advantage and analytical capacity to demonstrate the critical role of the environment in sustainable development and poverty reduction. It should incorporate environmental objectives into its core strategy and its operations.***	Bank management concurs. To support the linking of environmental issues with the Bank's core operations, improvements and actions will be taken in the following areas: • *Country-level environmental analyses* will be part of the standard package of diagnostic tools that informs policy dialogue, particularly in connection with the preparation of CASs and PRSPs. Key sustainability and environmental indicators will become part of the country indicator set included in CASs. We will refine the methodology of country environmental analysis during fiscal 2002, and over the next 5 years, carry out 5 to 15 country diagnostic studies annually, linked with CAS preparations in priority countries. • *Targeted environmental input to PRSPs*—analytical work, training, and facilitation of cross-sectoral dialogue—will help integrate environmental sustainability issues into the policy dialogue in 5–15 priority PRSP countries annually. • *Structured learning on strategic environmental assessments (SEAs)* will help introduce environmental considerations earlier in sectoral decisionmaking and planning processes. We will refine methodologies and procedures during fiscal 2002,

Major OED recommendations	*Response*
	then pilot and disseminate good practice in SEAs based on about 10–20 SEAs annually. The following measures will be taken to measure progress: • Monitoring and evaluating the environmental aspects of CASs. Our objective is to achieve satisfactory coverage based on methodology developed by ENV. • Regular reviews of the environmental aspects of PRSPs. • Refinement of the methodology for measuring the extent of environmental mainstreaming in key sectors (rural, urban, water and sanitation, energy) during FY02, and annual reporting on progress.
Recommendation 2: ***The Bank should review its environmental safeguard oversight system and processes to strengthen accountability for compliance. In parallel, the policy framework should be modernized and adapted to the changing practices and instruments being used by the Bank and take account of recent experience.***	Bank management concurs and is committed to continue improvements in the safeguard system, following a two-pronged approach described in the strategy (chapter 3). *Addressing short-term priorities:* • Implementing an integrated safeguard system, and improving consistency in safeguard application validated by an independent internal audit in FY02. • Establishing a corporate safeguard tracking and monitoring system by the end of FY02. • Strengthening corporate consistency and oversight and meeting safeguard implementation targets that will be established in FY02. • Developing and piloting a client capacity assessment and development program in FY02. *Reforming the safeguard system:* • Developing a medium-term workplan for reforming the safeguards system to be reviewed by CODE in FY02. • Implementing a client capacity development program over the next 5 years. • Implementing systematic staff training. During the next 5 years, 90 percent of all operational staff and managers will be trained in safeguards. • Work with clients and other development institutions to review and harmonize safeguards. • Improved monitoring and regular reporting at the Regional and corporate levels will provide up-to-date information on safeguard implementation issues (chapter 4).

Major OED recommendations	*Response*
Recommendation 3: ***The Bank should help implement the global environmental agenda by concentrating on global issues that involve local and national benefits.***	Bank management concurs. The strategy emphasizes the need to build on synergies by addressing local, regional, and global environmental issues, and spells out the principles to guide the Bank in actions to address global concerns (chapter 3). The following are key aspects: • *Supporting the integration of global concerns into PRSPs*. Several global environmental concerns—such as land degradation, water resource management and biodiversity loss, and the impacts of climate change—have strong linkages with poverty reduction. Such aspects will be included in PRSP reviews and joint staff assessments (JSA). A methodology will be developed during FY02 to guide annual reviews of PRSPs and inputs to JSAs. • *Integrating GEF resources with Bank operations*. The strategy aims to improve the integration of GEF assistance into Bank operations measured annually by the proportion of the GEF portfolio blended with Bank resources, compared with the current level (reported in World Bank 2000e). • *Addressing climate change comprehensively*. The Bank will also seek to enhance the proportion of Bank projects that carry out an assessment of their climate change impact. Assessment methodologies for sectoral operations will be updated and disseminated to operational staff. Annex G on climate change spells out in detail the proposed actions for reducing the vulnerability of people to climate change including the development of methodologies for assessing vulnerability.

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ENDNOTES

Chapter 1

1. The findings of a parallel study of the environment conducted by OED as part of the independent review of IDA 10, 11, and 12 have been incorporated in this report. See Shilling 2001.

2. These are identified in the References section.

3. See the Acknowledgments for the names of panel members. The *Report of the Advisory Panel* is attached as Annex B.

Chapter 2

1. This section is based on information in Wade 1997.

2. The program for NEAPs was the most visible of these initiatives.

3. The ENVIS system allowed extensive word and topic searches of project documents regarding environmental and other topics and was well in advance of other systems then available.

4. Despite criticism from many environmental advocates, the WDR went about as far as was feasible for the Bank at that time. It stopped short of addressing environmental sustainability, although considerable background material had been prepared on that topic.

5. Bank research and publications on natural capital and genuine savings and joint efforts with other partners, such as the Organisation for Economic Cooperation and Development, to develop and refine various sector-specific environmental indicators are at the forefront of attempts to define valid measures of environmental sustainability on a country basis. The underlying data, however, are often hard to come by.

6. USAID, the Canadian International Development Agency (CIDA), the Netherlands, and the Nordic countries had already mandated environmental assessment of their own programs. The Bank's environmental ratings system was adapted from the Asian Development Bank (ADB).

7. The original policies, many of which have been converted to Operational Policies (OPs) and Bank Procedures (BPs), and their issuance dates are: OMS 2.36 Environmental Aspects of Bank Work, issued May 1984; Annex A to OD 4.00 Environmental Assessment, issued October 1989; Annex B-B4 to OD 4.00 Environmental Policy for Dam and Reservoir Projects, issued April 1989; OD 4.20 Indigenous Peoples, issued September 1991; OP 4.36 Forestry, issued March 1993; OPN 11.02 Wildlands: Their Protection and Management in Economic Development, issued June 1986; OPN 11.03 Management of Cultural Property in Bank-Financed Projects, issued September 1986; and OP/BP 4.07 Water Resources Management, issued July 1993.

8. These are based on the economic Kuznets Curve, which postulates that income inequalities will increase initially before decreasing over time (a theory that is not well supported by evidence).

9. Two background papers touch on issues raised by the Inspection Panel about the Western China Project: Boisson de Chazournes 2000 and IUCN 2000. See also, Shihata 1994, 2000.

Chapter 3

1. See World Bank 1987, 1988, 1990b, 1991, 1992a, 1993b, and 1994a.

2. Various interpretations have been adduced about mainstreaming as applied to the Bank. For the sake of clarity in presentation, this report uses stewardship to address policy and strategy issues that govern actions affecting the environment. Mainstreaming is used for integrating environmental considerations in the Bank's operations—both direct lending (on which information is available) and incorporation into other lending (for which, despite its importance, few indicators are available).

3. Including the Convention on Biological Diversity, United Nations Convention to Combat Desertification, Montreal Protocol on Substances that Deplete the Ozone Layer, and Kyoto Protocol to the United Nations Framework Convention on Climate Change.

4. World Bank Business Warehouse database. The number has declined slightly since 1998 as part of the overall retrenchment of budgets and staffing in the Bank, but the change was roughly proportional. The separation of the Social Development Department has also resulted in some changes in the overall figures.

5. Owing to changes in reporting, conversion to new management information software, and increased use of trust funds, it has not been possible to get accurate and comparable figures over time.

6. Under pressure to complete them quickly, some were largely the product of foreign consultants and allegedly not reflective of local participation. Independent reviews of NEAPs have found mixed quality regardless of the means of preparation.

7. World Bank Business Warehouse database. As a share of total Bank lending, direct environmental projects accounted for 2.4 percent in 1993, 5.0 percent in 1996, and 3.4 percent in 2000.

8. World Bank 2000a.

9. India and China are major exceptions, owing to the size of their industrial and energy sectors.

10. Although the share of environmental lending rose in 2000 (from 1999), that was primarily due to a sharp drop in other (primarily adjustment) lending.

By itself, that was not a sign of renewed emphasis on the environment.

11. The most recent effort (IDA 2001) does not include information on closed projects, which is essential for an analysis of trends. Analysis carried out by the Environment Anchor indicates that the value of environmental lending through nonenvironmental sector projects through the 1990s was at least of the same order of magnitude as direct environmental lending over the same period.

12. Cited in staff interviews and survey responses.

13. Staff involved say there is still a long way to go.

14. Munasinghe and Cruz 1995 and World Bank 1997c discuss environmental policy issues that could have an impact on the environment.

15. World Bank 1993a, 1997c. A third review by ESSD is under way.

16. In some cases, failure led to actions before the Inspection Panel; in others, pressure led to a Bank response during project preparation, as in the projects involving the Chad-Cameroon pipeline and the Nam Theun dam in Laos.

17. IFC adopted another approach, creating a Compliance Adviser/Ombudsman (CAO), who is able to deal with issues similar to those brought to the Inspection Panel but in a more constructive and less adversarial manner.

18. The Advisory Panel believes "that the appropriate benchmarks for measuring performance should be the Bank's own stated commitments, and the degree to which the Bank's response has been commensurate with the agency and importance of the challenge. By both of these measures, and particularly in light of the failure to mainstream and evidence of recent backsliding, the Bank's performance has clearly been unsatisfactory" (see Annex B).

Chapter 4

1. The 2002 WDR on sustainable development may address this issue.

2. There was a small item for environmental assessments in Africa. Although the Strategic Compact did not provide additional funds for the environment, that "sector" shared in the subsequent cutbacks.

3. Studies have shown, for example, that the costs of environmental damage amount to about 8 percent of GDP in China each year, and about 5 percent in India. See Babu and Khanna 1997, Hommann and Brandon 1995, Tata Energy Research Institute 1998, and World Bank 1997b. Estimates for other countries also suggest substantial costs.

4. The last CAS Retrospective showed that only 16 percent of CASs were unsatisfactory with regard to their treatment of the environment (World Bank 2000i).

5. Only two of the CASs reviewed included environmental indicators: South Africa and Zambia.

6. Bank performance is comparable to that of other donors, based on their own evaluations. See Annex A.

7. These relations are complicated by the policing function of the same units with respect to safeguard policies, which often creates an adversarial relationship.

8. China has been one of the Bank's strongest counterparts on the environment and has made substantial progress, with Bank support.

9. Programmatic lending includes Sector-Wide Assistance Programs (SWAPs), Public Expenditure Review Loans (PERLs), Poverty Reduction Strategy Loans (PRSLs), and policy-based budget support loans.

10. ESSD is currently reviewing how to better incorporate environmental concerns into adjustment lending.

11. The Advisory Panel concludes that "the Bank's performance overall in mainstreaming at the country level has been unsatisfactory."

12. From interviews during country visits undertaken in preparation of this report.

13. A background survey on incentives found that task team leaders considered the mismatch between the Bank's OP 4.01—Environmental Assessment policy and the borrower's corresponding policies, regulations, and legislation the greatest constraint to implementing 4.01.

14. See World Bank 2000g for a complete discussion of the efforts made and challenges encountered in this area.

15. The Lake Victoria project in Africa, a successful GEF project, did lead to some associated IDA lending after the GEF project demonstrated definitively the value of those activities.

16. See World Bank 1998b for more detail on GEF's performance, which is not a topic of this evaluation.

17. Reviews of Bank projects since 1997 in the power, energy, and oil and gas sectors have revealed that few projects have explicitly analyzed or estimated potential greenhouse gas emissions.

18. The strong country-oriented structure and the difficulty of making loans to more than one country account for part of this reluctance. There have been exceptions using grant funds, such as the riverblindness program in West Africa and several GEF-funded projects (Aral Sea, Lake Victoria, Maghreb Shipwaste Disposal, Caribbean Shipwaste Disposal). These suggest that innovative means could be found.

19. Unfortunately, a number of high-level environmental initiatives and partnerships, while important in themselves, have reinforced the sectoral separation of the environment from other activities. Many of these initiatives have created small, separately funded units to carry out specific mandates, such as the Prototype Carbon Fund, or they carry separate grant funding, such as the Montreal Protocol. Both approaches fragment rather than integrate environmental issues.

20. There were increments to the budget overall in 1997 for safeguards activities, but after allocation to the Regions they were not earmarked and went into general resources. It has not been possible to determine how they were spent.

21. This is not a criticism of donor priorities, but the need to respond to differing external priorities makes putting together a coherent program within a country context more difficult.

22. This is also true of GEF funding. Some Bank staff interviewed stated that they were really working for GEF and doing GEF projects as the only way to maintain their positions and get an environmental "foot in the door" of many country programs.

23. Many environmental staff and some managers follow their own commitment to the environment despite the lack of rewards and incentives in the system.

Chapter 5

1. This is not to propose a one-size-fits-all approach, but appropriate inclusion among other key priorities, with explicit, country-specific priorities worked out within the overall framework.

2. The Advisory Panel recommends "that definitive clearance authority on every project with environmental implementations should be centralized to ensure clarity and consistency in the application of safeguard policies" (see Annex B).

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